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2  
3 A SUBMISSION  
4 to the  
5 ROYAL COMMISSION ON TAXATION  
6  
7 covering  
8  
9 THE CASE FOR ELIMINATION THE  
10 CORPORATION INCOME TAX  
11 by F. S. CAPON  
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The Case for Eliminating the Corporation Income Tax

Summary

1. The technological and economic changes now underway are of infinitely greater scope and significance than was the industrial revolution of the nineteenth century. As in that earlier period of drastic and sudden change we shall soon find ourselves faced with economic, political and social conditions entirely different from those of the long period ending with World War II. If we are to succeed as a nation, it is therefore of the greatest importance that we reconsider our present position in relation to the past which brought us to where we are and to the future which can be expected to result from present trends, actions and decisions. Because our tax and other fiscal policies were designed to meet totally different conditions, such reconsideration may serve to highlight radical changes in taxation policy which appear necessary if we are to ensure high living standards for future generations of Canadians.

2. Our past was that of any undeveloped country. The early settlers produced what food they could for themselves, at the same time developing our natural resources in order to earn sufficient incomes with which to support their families. Starting with beaver fur and lumber, followed by cereal grains and cattle as the prairies were opened up, Canada's has always been essentially an economy based on staples. Newsprint, cellulose and metals came along in due course, to be followed by the newer staples of oil, gas and uranium.







1 But still, as a staples economy, our exports are largely  
2 raw materials and our imports are manufactured products.

3 3. Historically, living standards in a staples  
4 economy have been lower than in industrialized economies.  
5 Agriculture and natural resources development provided  
6 jobs, but at lower wage rates than for those employed in  
7 manufacturing. Today, mechanization is limiting the  
8 employment in these fields, and with a greater share of  
9 their earnings applying to the huge new capital invest-  
10 ment, foreign owners may benefit more than Canadians  
11 from the success of resource industries. While Canadians  
12 have lived well during a decade of phenomenal growth  
13 financed by foreign capital, such conditions cannot be  
14 expected to continue indefinitely. To maintain prosperity,  
15 Canada must rely to a greater extent than in the past  
16 on secondary manufacture.

17 4. Technological advances in recent years - such  
18 as the computer, nuclear energy, miniaturization and  
19 automation - are bringing about entirely new concepts  
20 of labour, leisure and prosperity. They are permitting  
21 sharply increased productivity, and thus higher gross  
22 national income, with lower employment. Thus, for the  
23 first time in our history, full employment may not be a  
24 realistic objective. It is important to recognize that  
25 national income is increasing, and can continue to  
26 increase, through the investment of capital without  
27 corresponding additions to the necessary labour force.  
28 Thus, growing prosperity for the future may go hand-in-hand  
29 with rapidly increasing leisure (or unemployment), always  
30 assuming that we can assure for our people sufficient





1 incomes to enjoy the fruits of our productivity.

2 5. In such a situation, it will become progressively  
3 more important for the base of capital ownership to be  
4 broadened. As a growing proportion of national income  
5 will result from the employment of capital rather than  
6 labour, more will be distributed to capital owners as a  
7 group than to workers as a group. This can be achieved  
8 by two alternative approaches - either to make our  
9 households capitalists, or to place a heavy and increasing  
10 tax on income from capital to siphon off these earnings  
11 for transfer to the unemployed. The former holds promises  
12 of making Canada prosperous and self-sufficient; the  
13 latter holds out only the promise of ultimate socialist  
14 mediocrity as more and more voters depend upon the state  
15 until there is a majority in favour of outright expropria-  
16 tion of wealth.

17 6. The prosperity of a nation depends upon two  
18 main factors - a high national income, and a broad  
19 distribution of this income amongst its households.  
20 Two examples will illustrate this point. In the colonial  
21 empires great wealth was generated through development  
22 of resources in the colonies, but as much of it went to  
23 foreign owners the workers who lived in the colonies had  
24 low living standards. In the agrarian nations, land  
25 ownership was concentrated in the hands of the ruling  
26 landlord class, leaving the tenant farmers and peasants  
27 with low living standards, and causing great concentra-  
28 tion of wealth. Thus, as Canadian productivity gains  
29 through automation, with a steady reduction in work  
30 opportunities, Canada can be prosperous only if our







1 capital (or wealth) is owned largely by Canadians and  
2 is broadly distributed amongst our households. Only if  
3 a large proportion of our households ultimately receive  
4 their incomes from ownership of capital can they be sure  
5 of economic freedom, and they can have no personal  
6 freedom without economic freedom.

7 7. Because they were designed to meet entirely  
8 different conditions, present fiscal policies function  
9 in exactly the reverse manner from what is needed to  
10 achieve the aim outlined in the preceding paragraph.  
11 The confiscatory levels of graduated personal income  
12 tax siphon off for social benefit payments that dis-  
13 cretionary part of many Canadian incomes that would  
14 otherwise be mainly employed to buy equity securities.  
15 At the same time, the heavy reliance on the corporation  
16 income tax results in Canadian industry being non-competi-  
17 tive, and fosters the rapid concentration of equity  
18 ownership, particularly in the hands of foreigners.  
19 Canada's situation cannot be reversed overnight; our  
20 problems will take many years to solve completely. But  
21 unless we set our course in the right direction we can  
22 look forward only to a series of crises, to falling  
23 living standards and to unemployment rising much more  
24 quickly than will be caused by automation. If we hope  
25 to assure satisfactory incomes and living standards for  
26 Canadians we must move towards fiscal policies which will  
27 improve our industrial competitiveness by avoiding taxes  
28 burdening production, which will foster equity capital  
29 formation by Canadian individuals, and particularly which  
30 will foster a rapid broadening of the base of equity





capital ownership to our households.

8. Such an objective requires elimination of the corporation income tax and a drastic reduction in the amount of graduation in the personal income tax. Neither of these specific tax proposals need cause a significant reduction in government revenues, provided they are accompanied by:

- (a) a heavy tax on undistributed corporate income;
- (b) a tax deducted at the source from dividends payable to institutional or foreign shareholders equal to about the same tax at present paid by the corporations on the profits applicable to shares held by institutions and foreigners;
- (c) elimination of the 20% tax credit on dividend income at present allowed as a partial offset for the corporation income tax.

9. There follows a discussion of some aspects of Canada's economic and fiscal history as they bear particularly on the present tax structure, and of the reasons why a radical change seems so necessary at this time. This presentation is almost entirely philosophical, because up-to-date official statistical information is not readily available to the individual.

#### Discussion

10. Consideration of Canada's tax structure necessarily involves a review of our economic history in







1 which lies the bases for the various taxes on which we  
2 have relied to produce government revenues and to in-  
3 fluence our growth and development in the desired  
4 direction. Just as our present economic situation has  
5 resulted logically from the employment of our resources  
6 and abilities as influenced by the fiscal policies of  
7 the past, so our success in the years to come will be  
8 largely determined by our resources and the fiscal  
9 policies we pursue in the present and the immediate  
10 future. Presumably our chief objective is to assure  
11 prosperity and high living standards for Canadian as a  
12 whole. To achieve this objective we must evaluate our  
13 potentialities and then adopt those fiscal policies  
14 which, through financial and other incentives, are most  
15 likely to result in high productivity and a broad base  
16 of wealth distribution. Thus it follows that we must  
17 avoid tax policies which will add to Canadian production  
18 costs (making our products less competitive) and which  
19 will result in the concentration on equity capital  
20 ownership.

21 11. So long as Canada is a free enterprise country,  
22 most of her productive resources will be entrusted to  
23 her private corporations for operation. Thus, the nation's  
24 economic welfare depends upon the success of her private  
25 corporations, since gross national production will be  
26 essentially the sum of the output of all our companies.  
27 If we are to prosper, our corporations must prosper -  
28 they must be efficient, their operating costs must be as  
29 low as those in other countries, they must be relieved  
30 of artificial burdens passed off by our people, our





1 various levels of government, by labour and by all who  
2 believe that corporations can bear taxes and costs that  
3 would otherwise be borne by people. Corporations, being  
4 things, cannot suffer taxes or costs. To the extent that  
5 these are paid from corporate funds, some people must  
6 bear their burden. If our corporations are to succeed  
7 we have no choice but to adopt tax and other fiscal  
8 policies designed to ensure their success. This is not  
9 because we want to favour corporations but simply because  
10 in our own self interest we must achieve maximum  
11 productivity through our corporations. Experience in  
12 other countries has shown us that the only alternative  
13 - socialism- provides lower living standards and eliminates  
14 the personal freedoms for which generations of Canadians  
15 have sacrificed so much.

16 12. Canada's tax structure was designed many years  
17 ago to meet the economic conditions then obtaining.  
18 Productivity and living standards are those of a  
19 relatively undeveloped country, but government costs  
20 were minimal as government services were limited to  
21 defence, communications, education, and similar essentials.  
22 Customs and excise duties were the basic source of  
23 revenue for the federal government.

24 13. Two world wars caused huge increases in  
25 federal government expenditures and thus in the need for  
26 revenues to meet these costs. Late in World War I, and  
27 as a wartime emergency measure, a tax was placed on the  
28 incomes of individuals and corporations. When it sub-  
29 sequently became clear that government revenues could not  
30 be allowed to return to anything like pre-war levels, the







1 great revenue producer, the income tax, stayed. It had  
2 originally been assumed that customs duties and excises  
3 placed a heavy enough burden on manufactured products  
4 (mostly imported) needed by the people or on "luxuries",  
5 such as spirits and tobacco. The growth of secondary  
6 manufacturing, however, combined with the need for more  
7 government revenue, caused imposition of the federal sales  
8 tax as a basic and important revenue source. Since the  
9 depression years of the thirties, few really major changes  
10 have been made in the tax structure, other than the very  
11 great increases in tax rates imposed to finance in part  
12 the cost of Canada's war effort from 1940 - 1945. As in  
13 the case of the period after 1918, postwar government  
14 costs did not come down, so that the tax burden has risen,  
15 rather than dropping, since the end of the last war.

16 14. With government revenues spread between the  
17 income tax, customs duties, excises and sales in the  
18 decades of the twenties and thirties, the actual tax  
19 rates were low and it is doubtful if any of the individual  
20 taxes had great effect on the nation's economic growth  
21 or diversification. Government services were not  
22 extensive in today's terms, social "welfare" was largely  
23 limited to emergency unemployment relief or pensions on a  
24 means test basis. Thus, our tax and other fiscal policies  
25 probably had a relatively minor influence on business  
26 decisions, which were based almost entirely on market  
27 considerations.

28 15. This free enterprise situation has, however,  
29 been radically altered. With the high tax rates intro-  
30 duced progressively during World War II, sales and excise





1 taxes rose sufficiently to influence buying and to cause  
2 large scale tax evasion. Customs duty rates did not rise,  
3 chiefly because they had become fixed by international  
4 convention, thus giving increasing advantages to foreign  
5 products in the Canadian market as Canadian wage rates  
6 and related costs rose sharply. Both personal and  
7 corporation income tax rates rose to levels at which they  
8 seriously affected individual investment decisions and  
9 drastically altered the factors determining business  
10 policy. For the first time tax considerations, rather  
11 than the market place, became paramount in many business  
12 arrangements.

13 16. Canada thus finds herself with a combination of  
14 government services and economic needs utterly different  
15 from what existed before 1940, but relying essentially  
16 on a tax and fiscal framework designed to meet pre-1940  
17 needs when rates could be sufficiently low to avoid  
18 interfering with free market influences. The high rates  
19 now essential not only affect, but often supersede,  
20 market considerations and thus our tax and fiscal  
21 policies are affecting us in a manner that was not  
22 intended when they were designed. In fact, the very  
23 tax structure itself causes economic imbalances which,  
24 of themselves, bring on the need for additional govern-  
25 ment "social" payments. Thus, our task today is to  
26 re-examine our economic objectives and to design a tax  
27 structure which will aid their attainment, rather than  
28 driving us in the wrong direction as at present.

29 17. The steep graduation of personal income tax  
30 rates is defensible only on the basis of political







1 expediency. The income thus siphoned off represents  
2 an important part of Canada's potential savings, since  
3 it is discretionary income, yet as a proportion of total  
4 income tax revenue of government it is negligible. A  
5 flat personal income tax of only three or four percentage  
6 points above the present rate for the lowest bracket  
7 would produce as much revenue as the present schedule  
8 with a top rate six times the rate for the lowest bracket.  
9 As a revenue producer, the graduated part of the tax is  
10 relatively unimportant, but it represents a political  
11 sop to the mass of the low income people who cannot be  
12 expected to understand the damage done by a tax which  
13 prevents a relatively important amount of investment in  
14 new equity securities. The true disadvantages of the  
15 steeply graduated personal income tax far outweigh the  
16 advantage of political expediency, and it is strongly  
17 urged that the Commission advise a sharp reduction in the  
18 extent of graduation of personal income taxes.

19 18. The sharp graduation in personal income tax  
20 rates has been directly responsible for the tremendous  
21 increase in remuneration payable to employees in our  
22 corporations. Because effective incentives require that  
23 the net income received by an employee be sufficiently  
24 more upon promotion to recompense him for increased  
25 responsibilities, the rate of gross salary for each level  
26 must advance fast enough to cover the increase in income  
27 tax rate as well as providing more pay for extra  
28 responsibility. Thus, current senior salary rates look  
29 astronomical in terms of pre-war rates, although the net  
30 after taxes remuneration progression from level to level





1 is not out of line with the pre-war relationship.

2 However, the higher gross costs must be charged in pro-  
3 ducing goods in Canada, thus resulting in still one more  
4 factor burdening Canadian production costs with taxes  
5 and causing our goods to be less competitive with those  
6 produced in countries with lower remuneration rates.

7 19. There is one connecting point between personal  
8 and corporate income tax which should be mentioned here,  
9 although it will also be referred to later. When the  
10 income tax was first introduced, the purpose was to tax  
11 the incomes of individuals from wages or salaries, from  
12 investments or from other normal sources. It was  
13 obvious that, in order to evade this new tax as much as  
14 possible, shareholders would avoid taking dividends from  
15 their companies, thus receiving their corporate earnings  
16 in the form of capital gain rather than as dividends.  
17 And so, in addition to raising revenue by taxing corporate  
18 profits, as such, it was necessary to eliminate the  
19 incentives to shareholders to escape the personal tax  
20 on dividends. The law therefore "deemed" dividends to  
21 be paid if an excessive amount of earnings were retained.

22 20. While changes to the personal income tax  
23 structure are desirable, the greatest damage to Canada's  
24 future prosperity is caused by the corporation income  
25 tax. This tax, which siphons off for government use  
26 more than half of the total corporate profits earned in  
27 Canada, has a number of distinct and clear effects, every  
28 one of which is harmful to our economic success.

29 21. From the inception of the corporation income  
30 tax, thinking people recognized that a company, being a







1 thing, cannot bear taxes - that only people can bear  
2 taxes. Certainly the corporate tax is calculated on  
3 corporate profits and is paid out of the corporate bank  
4 account. But since only people can own property, earn  
5 incomes and pay taxes, the effective burden of the  
6 corporation tax necessarily has to fall on people.  
7 However, this concept has long since been forgotten, if  
8 it was ever understood, by most Canadians. Most people,  
9 aided by our politicians, have convinced themselves that  
10 corporations are large, soulless pools of wealth from  
11 which high taxes can be paid without in any way hurting  
12 the people who would otherwise have to pay these taxes.  
13 At the same time, people believe, our companies can  
14 afford high wages while also taking on the burden of  
15 financing universities, schools, concert halls and art  
16 galleries that would otherwise have to be paid for by  
17 people.

18 22. Recognizing that a company cannot in fact bear  
19 a tax burden, any tax collected from corporations must  
20 be passed on to people. The passing on was not too impor-  
21 tant before 1940, when the tax rate was at or below 15%.  
22 It probably had some slight effect on prices, and it  
23 undoubtedly had some effect on dividends. However, once  
24 the tax rate came to exceed 50%, leaving government as  
25 the silent partner in business taking more than half  
26 the profits but none of the risk, the impact of the tax  
27 had to be radically altered. Many studies have been made  
28 of the impact of the corporation income tax, to determine  
29 who in fact bears its effect. Unfortunately, none has  
30 reached a conclusive answer, at least in quantitative





1 terms, although all agree that the tax burden becomes  
2 distributed over four groups, namely:

3 (a) shareholders, to the extent that it causes  
4 lower profits and dividends;

5 (b) customers, to the extent that it causes  
6 higher prices;

7 (c) employees, to the extent that it depresses  
8 wages; and

9 (d) Canadians as a whole, to the extent that, by  
10 adding to costs, it makes our products less  
11 competitive opposite foreign-made products,  
12 thus causing lower production and employ-  
13 ment in Canada.

14 Before considering the tax impact on these groups, however,  
15 I propose to review a few broad points of economic  
16 philosophy in order to establish some essential components  
17 of our future objectives.

18 23. The productivity - that is, output per man  
19 hour - of the modern world has increased tremendously  
20 since 1940, at a rate which is almost frightening.  
21 Technological breakthroughs have been the essential  
22 factor, but sheer wealth generation has also been im-  
23 portant. For, as technological advances increase  
24 productivity, more wealth is generated and thus more is  
25 available as capital to invest in new equipment to  
26 advance productivity still further. Once the process  
27 gains headway it feeds upon itself, and the speed of  
28 change increases in geometric progression.

29 24. Technical knowledge exists today for the  
30 automation of much of our total productive process. We





1 know how to make all the goods the free world needs to  
2 support present living standards, using only a fraction  
3 of the available working hours. Increasing productivity  
4 is generating the capital needed to employ this  
5 technical knowledge, and increasing wage demands by labour  
6 are providing the incentive to adopt labour-saving  
7 techniques. Marginal or sub-marginal living standards in  
8 most of the world hold out some promise for employing  
9 workers, but unless the production takes place in those  
10 areas their living standards cannot be raised. Thus,  
11 because of the changes which have taken place within the  
12 past twenty years, and which are only beginning to be felt,  
13 we face a totally new situation in living standards, in  
14 employment, in international relations, and in our whole  
15 concept of economic life. Our problem in this situation  
16 is to devise the means to assure our people of adequate  
17 incomes to maintain living standards even if we must  
18 live with high unemployment.

19 25. What is the basis of national prosperity?

20 Obviously, no nation can be prosperous without a high  
21 total national production. But high productivity of itself  
22 will not necessarily assure general prosperity. National  
23 prosperity exists when a nation's households have high  
24 standards, but this necessitates a very wide distribution  
25 amongst the people of the high national production. Two  
26 examples of how high productivity need not result in high  
27 living standards may serve to point up fundamental  
28 weaknesses in Canada's position:

- 29 (a) In the great colonial empires, production  
30 in the colonies rose sharply following







1 conquest, but because much of the new  
2 wealth flowed back to capital owners in  
3 the parent country, living standards of  
4 the natives in the colonies stayed very  
5 low. Thus, foreign ownership of capital  
6 can prevent a nation from benefiting from  
7 its production.

8 (b) In the agrarian countries, where land is the  
9 chief source of wealth, land ownership,  
10 and thus its fruits, becomes concentrated  
11 in a ruling landlord class. Because the  
12 peasants have no means of acquiring land,  
13 and because the landlords, being in absolute  
14 control, have historically kept wage rates  
15 at virtual subsistence level, living stan-  
16 dards for the households are low even  
17 though the landlords live in luxury. Thus,  
18 concentration of wealth also results in low  
19 general living standards, even with high  
20 production.

21 26. Because of modern productive processes, land is  
22 no longer the main source of wealth. Capital other than  
23 land is becoming increasingly important as the source of  
24 wealth generation, and thus for our people to be pros-  
25 perous it is important for them to own capital. When land  
26 was the basis of income generation Canadians worked long  
27 hours on the land to support themselves and there was  
28 virtually no unemployment as there was always more land  
29 to work. However, unemployment came with secondary  
30 manufacturing although originally because of cyclical





1 factors which caused recessions and booms. Having  
2 developed economic tools, such as cyclical budgeting,  
3 to minimize these phenomena, we are now about to enter  
4 an age of automation in which, because machines do the  
5 work of men, we need not in fact be busy. We will have  
6 high leisure time or high unemployment - whichever we  
7 choose to call it. There have been parallel developments  
8 in the history of mankind - the advance from the stone  
9 age to the iron age, then to feudalism, to the renaissance  
10 and to the age of power or energy. But in the past these  
11 transitions usually took place over several centuries  
12 leaving people ample time to make adjustments. The  
13 exception, the industrial revolution, caused crises com-  
14 parable to those we now face. Today we are not ready  
15 for automation - either economically or psychologically -  
16 yet it is developing very rapidly even while most of our  
17 leaders continue to preach full employment. Those charged  
18 with responsibility to plan our economic course and the  
19 fiscal policies which will determine this course have a  
20 tremendous task, the gravity of which increases almost  
21 daily.

22 27. Since technological advances bring increased  
23 productivity, our gross national income will advance as  
24 we adopt these technological gains. However, because this  
25 higher income will result from employing more capital and  
26 less labour it follows that the proportion of national  
27 income distributed to capital owners should rise and that  
28 to workers as such should fall. For we cannot attract  
29 the capital needed to take advantage of technological  
30 gains unless we offer it fair rewards, and we cannot pay







1 labour an unreasonable share of income because to do so  
2 would make our products non-competitive. We shall have a  
3 higher national income, but unless we have a much broader  
4 base of capital ownership amongst our households this  
5 higher income will be concentrated in fewer hands thus  
6 causing a falling off in general prosperity.

7 28. There are basically two methods of getting  
8 income to our households under conditions of high national  
9 income and relatively low employment. The first is to  
10 broaden the base of capital ownership, using whatever  
11 fiscal incentives are needed to achieve this end, so that  
12 our households receive their income from capital owner-  
13 ship to supplement the reducing income from work. The  
14 second is to continue to allow the concentration of wealth  
15 ownership and to raise taxes on income from capital to  
16 whatever level is necessary to pay to the unemployed  
17 enough in relief payments to provide them with average  
18 living standards. The former method leaves with our  
19 people all the incentives for greater productivity and  
20 the freedoms which go with economic independence. The  
21 latter gives only incentives to lower productivity and  
22 ultimately to outright totalitarian socialism as the  
23 number of unemployed voters becomes sufficient to support  
24 the political party dedicated to expropriation of wealth.  
25 Thus, we need to eliminate fiscal policies giving in-  
26 centives towards the concentration of equity capital  
27 ownership and we need to adopt fiscal policies giving  
28 incentives to decentralization of equity capital owner-  
29 ship.

30 29. The formula for prosperity in Canada contains





two essential factors - a high national income and a broad distribution of this income. The former can come only with high productivity in Canada, which, in turn, requires our products to be competitive with foreign products in supplying demand in Canada, and in allowing balance in our international payments. The latter requires, as explained above, a broad distribution of capital ownership. The corporation income tax provides incentives which are directly contrary to both these objectives, particularly when its effects are combined with those of the steeply graduated personal income tax.

30. The corporation income tax provides incentives to inefficiency because it causes the expenses of business to cost the businessman or the shareholder less than fifty cents on the dollar. Since the tax rate was more than tripled after the pre-war years, there has been a marked change in expenses of business, in the outlook of managers on the control of costs, and in the attitude of the public in urging business to pay social costs. This is evidenced in several ways:

(a) the pressure of unionized labour for higher wage rates not based on productivity has been openly supported by government and the public on grounds that taxes pay half the cost anyway;

(b) the pressure for industry to finance the construction and operation of universities, schools, hospitals, art galleries, concert halls and so forth is openly pressed on the basis that the business cost is only fifty





cents on the dollar;

(c) expense account living, including travel, club membership, company planes and cars, lavish offices and all the other paraphernalia of business life today are based on the premise that the net cost after taxes is insignificant;

(d) high remuneration rates need to compensate for the steep graduation in personal taxes are tolerated by the fact that "the government pays half."

Thus high corporation tax rates have broken down the drive for management to be efficient and to cut costs. To this extent, the tax has undoubtedly hurt production and employment in Canada.

31. The corporation income tax is necessarily extremely complex, thus causing every company to employ highly trained tax experts in both the legal and accounting fields. Medium and larger sized companies employ full-time staffs solely to ensure that their tax payments are minimized, and they also rely extensively on external professional experts. Small companies rely mainly on outside professional help. But the total cost of this tax compliance represents a vast burden on Canadian business - undoubtedly well over a hundred million dollars a year, and possibly two or even three times this figure - a burden which would be virtually eliminated if the equivalent government revenue were to be raised by the more simple sales, excise and personal income taxes. Recognizing that such complex legislation requires great







1 skills for administration and compliance, it is clear that  
2 there is a huge hidden cost to Canada in keeping so large  
3 a proportion of her finest minds engaged solely on such  
4 non-productive or sterile work.

5 32. The corporation tax, combined with the effect  
6 of the graduated rates of personal income tax, is causing  
7 the concentration of wealth because it gives incentives  
8 to companies to finance growth internally without the  
9 issue of new equity securities. Under the free enterprise  
10 system, all production is in the hands of our corporations,  
11 and all economic growth takes place through their ex-  
12 pansion. Since the 1940-1945 increase in tax rates, there  
13 has been a sharp rise in the proportion of total industrial  
14 expansion financed without the issue of new equity  
15 securities, until this ration is now well over 90% for all  
16 of North America. Recognizing that equity securities,  
17 rather than debt securities, are the basis for distributing  
18 that part of national income allocated to the capital  
19 sector, a constant increase in equity securities is  
20 necessary to provide a broadening capital ownership base  
21 for a growing number of households. Existing equity  
22 securities are being bought up by institutional and  
23 foreign holders, leaving a pitifully small volume of  
24 securities available for an increasing demand. Thus, the  
25 stock market value of equities has risen until the  
26 traditional pattern of yields has been reversed, and the  
27 yield on equities is less than the yield on bonds.

28 33. The main tax incentives towards financing of  
29 growth in existing corporations without the issuance of  
30 new equity securities, and thus towards the centralization





1 of wealth, may be summarized as follows:

2 (a) High personal tax rates cause shareholders  
3 to prefer to leave earnings in their  
4 companies in order to make capital gains.  
5 This incentive was recognized in the  
6 original tax law by "deeming" dividends to  
7 have been paid if earnings retention was  
8 unnecessarily high. However, because the  
9 high corporation income tax rate made the  
10 inequity of double taxation so obvious, this  
11 "deemed to be distributed" section of the  
12 law was repealed, leaving shareholders  
13 free to convert earnings after corporate  
14 taxes into capital gains.

15 (b) The allowance of interest on debt as an  
16 expense, but the disallowance of dividends  
17 as a deduction for corporation tax purposes,  
18 gives great leverage to debt financing  
19 which is then repaid out of accumulated  
20 earnings. The financing of growth in this  
21 way prevents new capitalists from sharing  
22 in productivity as all the gains go to  
23 existing shares except for a small amount  
24 of interest paid out before debt is retired.

25 (c) Special tax rules on depreciation have  
26 become of great significance in recent  
27 years, because they are used to give tax  
28 incentives to stimulate growth. But these  
29 rules provide industry with huge amounts  
30 to pay for growth without issuing new equity





1 securities and without incurring interest  
2 charges on borrowing.

3 34. To be prosperous in the future, we shall have  
4 to keep our production costs competitive and we shall have  
5 to ensure participation by our households in our economic  
6 growth through owning equity securities. This calls for  
7 a constantly increasing flow of new equity securities to  
8 finance our growth. Thus, to be prosperous, we should  
9 eliminate the corporation income tax and we should sharply  
10 reduce the degree of graduation in the personal income  
11 tax both of which urge us to finance growth from internal  
12 corporate funds. Because of the large, and growing,  
13 importance of the corporation income tax as a source of  
14 government revenue, however, it is necessary to consider  
15 the impact of the proposal on government revenue sources  
16 and the manner in which the necessary alternative  
17 revenues can be raised.

18 35. First, let us emphasize again that a corporation,  
19 being a thing, cannot in fact bear a tax burden. While  
20 the taxes may be calculated on corporate profits, and  
21 paid from the corporation's bank account, only people can  
22 bear the ultimate effect of this tax, and the people who  
23 suffer must be in one of the following groups:

- 24 (a) shareholders;  
25 (b) customers;  
26 (c) employees;  
27 (d) Canadians as a whole.

28 Elimination of the corporation income tax could only be  
29 beneficial for groups (b), (c) and (d) because the effects  
30 would be to reduce the price of goods, to allow for higher







1 wage rates, and to increase employment and incomes in  
2 Canada as our products become more competitive. Further-  
3 more, the effect on shareholders would also seem to be  
4 good because of the elimination of the inequitable double  
5 taxation at present applying on net corporation profits  
6 distributed as dividends. The imponderable is the extent  
7 to which Canadians as a whole would pay more income, sales  
8 and other taxes if the corporation income tax were to be  
9 removed, but this is believe to be negligible.

10 36. If the corporation income tax were to be repealed,  
11 it would clearly be necessary to impose a substantial  
12 tax on undistributed corporate earnings in order to  
13 circumvent the obvious incentives to shareholders to  
14 convert corporate earnings into capital gains by reducing  
15 dividend payout. Assuming a rate of well over 50% on  
16 undistributed profits, and probably as high as 75% on  
17 retained earnings above a cumulative figure equal to  
18 paid in capital, virtually all corporate profits would  
19 presumably be distributed. Although there would be a  
20 tendency for prices of goods to come down, this would  
21 start slowly because the prices of almost all goods in  
22 Canada are determined by those set in world markets. Thus,  
23 a reduction in costs, even as large as the elimination  
24 of corporate income tax, would not immediately be reflected  
25 in lower selling prices. As prices came down, they would  
26 drop in order to gain greater volume for Canadian  
27 manufactured products, thus increasing corporate profits  
28 and wages in Canada.

29 37. At present, less than one half of corporate net  
30 income is paid out of dividends, and corporation taxes





1 take over half of income otherwise available for dividends.  
2 Thus, if there were no corporation income tax, and if all  
3 earnings were to be paid out of shareholders, dividends  
4 would be more than four times the present figure with no  
5 change in corporate profits.

6 38. Dividends of Canadian companies go to various  
7 types of shareholders, most of whom would fall within the  
8 following groups:

- 9 (1) Canadian individuals;
- 10 (2) Canadian institutions, including trustee  
11 funds of all types;
- 12 (3) Canadian corporations;
- 13 (4) Foreigners.

14 Under present tax law, Canadian individuals pay full  
15 personal tax on dividends, Canadian corporations or  
16 institutional shareholders usually pay no tax on dividends,  
17 and foreigners pay the 15% tax deducted from dividends  
18 remitted to them.

19 39. There can be no justification in equity for  
20 taxing the dividends received by Canadian individuals  
21 from their corporate operations at a sharply higher rate  
22 than that applying to their other income. Thus, to the  
23 extent that the corporation income tax (less the 20% tax  
24 credit) there is obvious inequity. Therefore, if the  
25 corporation income tax were to be eliminated, dividends  
26 paid to Canadian individuals should continue to be taxed  
27 as ordinary personal income, but the 20% tax credit should  
28 be eliminated. Because equity shares tend to be held by  
29 individuals in the medium and higher tax brackets, and  
30 recognizing that the incremental tax effect will apply at





1 the highest income bracket of the individual, the calcula-  
2 tions which follow assume that there would be a total  
3 personal tax of 50% on dividend income received by  
4 Canadian individuals.

5 40. Canadian insititutional and corporate share-  
6 holders do not normally pay tax on dividends from Canadian  
7 corporations. In most cases, of course, institutions  
8 such as university trust funds, pension funds and so forth  
9 are free of any tax. However, since the total corporate  
10 income earned in respect of their shareholdings is at  
11 present subjected to a tax of over 50%, their position  
12 would be no worse than at present if the corporation tax  
13 were to be removed but they were to be taxed at 50% on  
14 any dividends from Canadian corporation. Since corporate  
15 and institutional accounts are one of the significant  
16 factors in the potential concentration of wealth, it is  
17 important to one of our fundamental objectives that they  
18 not hold equity securities. Therefore, by imposing the  
19 50% tax on dividend income of these accounts, we would  
20 give them an incentive to avoid equity securities without  
21 harming their net income position on present holdings.

22 41. The position of foreign shareholders is of the  
23 utmost importance because they now own over 60% of all  
24 Canadian equity securities. What is more dangerous to  
25 our future prosperity is the fact that foreign holdings  
26 are concentrated in our most productive and most modern  
27 industries, so that the proportionate share of national  
28 income going to foreigners may well be in excess of that  
29 based on ownership of 60% of our equities. While foreign  
30 ownership of a country's productive resources can only







1 damage its living standards, this is not a subject for  
2 the present submission. Rather, being concerned at this  
3 time only with the tax treatment of foreigners, it is  
4 fair to say that at present the corporation tax is levied  
5 on the total profits applying to their holdings of shares,  
6 and that they then pay a further 15% on the amount of any  
7 dividends remitted. Thus, if we eliminate the corporation  
8 income tax and substitute instead a 50% tax on all divi-  
9 dends credited to foreigners, plus a further tax of  $7\frac{1}{2}\%$   
10 on the gross amount of any such dividends remitted outside  
11 the country, the foreign shareholder would be no worse  
12 off than at present, and would pay probably about the same  
13 tax as the typical Canadian shareholder. Recognizing  
14 that his Canadian company benefits fully from all govern-  
15 ment services in this country, there is no reason why the  
16 foreigner should not pay such a tax on his Canadian income  
17 earned through the corporate route.

18 42. Because government statistics available to the  
19 Commission on incomes and taxes will be so much better  
20 than those available to the individual citizen, no attempt  
21 has been made to obtain definite up-to-date figures to  
22 show the effects of the above tax change proposals on  
23 current revenues. However, the figures used below are  
24 within "order-of-magnitude" range, and will be in pro-  
25 portion to whatever current figures are available, and  
26 they therefore give a fair illustration of the effects of  
27 the proposals.

28 43. Assuming corporate taxable incomes in Canada  
29 totalling \$3,000 millions the corporation income tax is  
30 about \$1,500 millions, and dividends paid are about





\$750 millions. The 15% tax paid by foreigners on dividend distributions totalling \$450 millions is \$67½ millions. If 20% of all dividends are paid to institutional and corporate accounts, this leaves \$150 millions in dividends to be paid to Canadian individuals on which we will assume a 50% tax, or \$75 millions. Against this last figure must be offset the 20% dividend tax credit of \$30 millions. Therefore, the total tax burden on \$3,000 millions of corporate profits at present would be \$1,612½ millions.

44. On the basis of the assumptions or proposals in paragraphs 39 to 41 inclusive, the government revenues to be obtained from a comparable corporate income of \$3,000 millions would be as follows:

|                                                                         |   |                         |
|-------------------------------------------------------------------------|---|-------------------------|
| From foreigners 57½% of \$1,800 millions                                | - | \$1,035 millions        |
| From Canadian institutional and corporate holders 50% on \$600 millions | - | 300 millions            |
| From Canadian individuals 50% on \$600 millions                         | - | 300 millions            |
| Total tax                                                               | - | <u>\$1,635 millions</u> |

Obviously, the net dividend after the 50% tax received by corporate shareholders could then be classified as tax paid surplus in their hands. If the tax levied on foreigners were left at 50% of dividends, the same as that applying to Canadian shareholders, the total tax would be \$1,500 millions or \$112½ millions less than the present corporation income tax.

45. The above summary calculation is designed to show





1 that the proposals to eliminate the corporation income  
2 tax, combined with the other related proposals, need not  
3 cause any significant reduction in government revenues.  
4 Such a calculation, however, ignores a number of side  
5 effects which are of great importance, all of which add  
6 weight to the case for removing the tax. Some discussion  
7 of such side effects seems desirable.

8 46. If the corporation tax is eliminated as a cost  
9 factor, Canadian selling prices would drop to the extent  
10 that this action would result in higher output and profits  
11 on Canadian operations. Thus living standards would  
12 benefit, employment in Canada would increase, profits  
13 would go up and so would government revenues.

14 47. Elimination of the corporation income tax would  
15 save the country the very great costs involved in comply-  
16 ing with the tax law, compiling records, filing returns,  
17 maintaining expert tax accountants and lawyers, and in  
18 maintaining the corporation tax section of the government  
19 internal revenues department. This cost is a huge amount,  
20 and is included in the operating costs of our companies.  
21 Thus, it is one more factor which would go to help make  
22 our products more competitive.

23 48. Probably the greatest direct benefit from the  
24 elimination of the corporation tax would be the removal  
25 of its great incentives to inefficiency, to expense  
26 account living, to the incurring of unnecessarily high  
27 costs and expenses just because the net effect is less  
28 than fifty cents on the dollar. Such a benefit cannot be  
29 measured, but ought to be of tremendous significance to  
30 the efficiency and competitiveness of Canadian business.







49. Elimination of the corporation income tax would remove some major incentive towards the concentration of wealth, and would result in an immediate sharp increase in the proportion of industrial growth financed by new equity securities. This would come about by cancelling the great leverage factor in favour of debt financing, at the same time keeping to a minimum the retention of earnings for growth. It must be clear that, because total national production would increase, the country would have more capital available for investment. Therefore, the fact that less would be available within existing companies for internal financing of growth need have no detrimental effect upon the country's actual growth.

50. One other side effect would be the elimination of the opportunity for capital gain through earnings retention. This has been the recent incentive causing common share prices to rise until yields are far below those on debt securities. The high rate of corporation tax has made it politically impossible to force a high dividend payout as well, since the inequity of confiscatory double taxation would be so obvious. Thus, the corporation tax has acted to keep down dividends and to allow shareholders to accumulate tax-free capital gains. It is not intended that Canadians or foreigners should get tax-free income through the corporate route, and thus capital gainst cannot be defended if they arise from the accumulation of income in a manner designed to evade tax. such a practice can only end with imposition of a capital gains tax.

51. The resulting sharp increase in new equity share





1 issues, combined with the much higher rate of dividend  
2 payout, would make these securities more interesting and  
3 more available to our households. This result is in line  
4 with one of our greatest economic needs, and is one of the  
5 most important reasons supporting elimination of the  
6 corporation income tax. The financial means for broadening  
7 the ownership of securities will be difficult to devise,  
8 although the intelligent use of sound credit can help.  
9 However, this problem can be solved once its importance  
10 becomes generally recognized.

11 52. The imposition of a heavy tax on undistributed  
12 profits would call for essential legal provisions to enforce  
13 this tax and the distribution of earnings. These legal  
14 provisions need by only a small fraction of the present  
15 law, once the principle is no longer to tax total  
16 corporate income. Greater reliance would have to be placed  
17 on auditors to ensure that sound accounting principles  
18 are applied, and extremely heavy penalties should apply  
19 to deliberate tax evasion. Enforcement of this tax would  
20 cost only a tiny fraction of the cost of complying with  
21 the corporation income tax since few companies need be  
22 seriously concerned once the principle of total distribu-  
23 tion of earnings is accepted.

24 53. There have been many statements to the effect  
25 that corporations should be encouraged to retain earnings  
26 for expansion because, if earnings were to be paid out in  
27 full, shareholders would spend the money on higher living  
28 and our economy would stagnate. Such arguments are  
29 unsound for several reasons, but surely the most important  
30 is that, unless we are free as individuals to own and





1 dispose of property, we have no freedom. Under capitalism  
2 a shareholder invests to earn a profit. The profit is  
3 the incentive, and if his company makes a good profit he  
4 will invest again to make more. But if he chooses to  
5 raise his living standard rather than save, that is his  
6 right. The profit is his to use as he wishes, and no  
7 manager should have the right to determine whether a  
8 shareholder may live better or whether he must save  
9 whether he likes or not. If higher dividends result in  
10 better living standards, the increased demand will ensure  
11 more employment and prosperity. Capital will always be  
12 available if the incentive is adequate.

13 54. Management claims superior ability to make  
14 decisions on business expansion. Yet the evidence does  
15 not support such claims. The theory of capitalism is that  
16 capital will be invested in a project which offers a proper  
17 return, and that the return needed to attract capital will  
18 vary according to risk. The return is the incentive to  
19 invest. However, if growth is financed internally,  
20 management does not have to justify its plans to investors.  
21 The incentives for management are based on power rather  
22 than on return, and thus management often prefers to grow  
23 for growth's sake rather than earn the optimum rate of  
24 return on each dollar of investment.

25 55. In recent years the management urge for growth  
26 has caused the modern phenomenon or diversification. This  
27 process puts chemical companies in the textile business,  
28 distilleries in the oil business and oil companies in the  
29 chemical business. It makes for larger companies, but  
30 it may well be an inefficient process for the nation. If







1 there are in fact special skills needed in complex modern  
2 business, surely it would be more efficient for the oil  
3 companies to take care of expanded oil needs and for  
4 chemical companies to increase chemical capacity as  
5 required, rather than for oil experts to dissipate their  
6 special skills on chemical problems while chemical experts  
7 get all mixed up with oil. The basis of diversification  
8 is usually the urge for tax-free capital gains or the  
9 desire of management to retain cash rather than distribute  
10 it to its owners (shareholders) at the same time holding  
11 out to shareholders the bait of greater security. In  
12 most cases diversification has probably caused a lower  
13 rate of return on total operating investment. If companies  
14 were obliged to rely to a much greater extent on raising  
15 new equity capital to finance growth, issuing the necessary  
16 prospectus to justify each project, it is believe that  
17 growth would be undertaken more efficiently thus improving  
18 the competitive position of Canadian products and increasing  
19 employment and incomes of Canadians.

20 56. Another modern phenomenon caused to no small  
21 extent by low dividend payout rates is the takeover of  
22 Canadian companies by foreign corporations, by other  
23 Canadian companies, or by governments. Low dividends  
24 inevitably cause the market value of shares to be less  
25 than would be the case if total earnings were distributed.  
26 This, in turn, means that an offer can be made for all  
27 the shares at a price above current market, but still well  
28 below the true value of the company. The number of large  
29 Canadian companies taken over by foreigners or by  
30 provincial governments at bargain prices in the past few





1 years certainly shows that shareholders, the true owners  
2 of the company, are seriously hurt by the refusal of  
3 management or directors to pay out all earnings as  
4 dividends.

5 57. Any nationalization of a utility or a producing  
6 corporation is, of course, a step in the progress towards  
7 socialism. Probably the worst feature of this process  
8 is the fact that it removes large quantities of equity  
9 securities from the market thus making it that much more  
10 difficult to broaden the base of equity capital holdings  
11 amongst our households.

12 58. It can only be concluded that the corporation  
13 income tax is an unsound tax, that its effects are harmful  
14 to Canada's employment, prosperity and living standards,  
15 and that it is not in fact needed as a revenue-producer  
16 by government. It must, of course, be emphasized that  
17 these comments apply to the tax levied by any level of  
18 government, and for the most part comments apply with equal  
19 force to other types of tax, such as the special Quebec  
20 Education Tax applying to resource companies, which  
21 purport to place a tax on things (companies) rather than  
22 people.

23 59. If the tax is paid largely by shareholders,  
24 then its removal, combined with enforcement of high  
25 dividend payout, will leave shareholders paying the  
26 appropriate amount of tax on this income as individuals  
27 rather than in their corporate form. The equitable amount  
28 of tax would still be collected from shareholders, but  
29 we would end the incentives to inefficiency, the incentives  
30 to financing growth without the issue of new equity





1 securities, and the obvious inequity of double taxation  
2 on dividends now paid. At the same time, Canadian products  
3 would become more competitive thus increasing production,  
4 employment and incomes in Canada. The change need make  
5 no difference to foreign shareholders as the tax on  
6 dividends would simply replace the tax now paid on  
7 corporate profits applicable to their shareholdings. It  
8 would impose a tax on Canadian corporate and institutional  
9 shareholders equal to the amount now paid on profits  
10 applying to their shares.

11 60. If the tax is paid largely by consumers, then  
12 the immediate effect would be to transfer no small part  
13 of the burden to shareholders since dividends, and  
14 thus the tax on dividends, would rise sharply. But this  
15 would not be inequitable because if our companies are in  
16 fact passing the tax on to consumers and at the same time  
17 retaining more than half their earnings, then shareholders  
18 are in fact getting a large amount of income free of tax.  
19 On this basis, elimination of the corporation income tax  
20 would place the tax burden where it properly belongs, but  
21 if the tax is in fact included at present in higher prices,  
22 then prices would come down, thus increasing Canadian  
23 living standards, production and employment.

24 61. The arguments set forth in this brief in favour  
25 of eliminating the corporation income tax have always been  
26 valid, but because they become more obvious with the tax  
27 rate at confiscatory levels than was the case before 1940  
28 with the rate at 15% or lower. However, the reasons  
29 for eliminating this bad tax are becoming rapidly more  
30 urgent as our national productivity grows through automa-





1 tion thus calling for fewer work hours to produce all  
2 we can distribute. As the productivity of capital gains  
3 and that of labour diminishes, outright socialism is  
4 inevitable unless we can broaden the base of capital  
5 ownership sufficiently for many of our households to  
6 receive their incomes as capitalists. Socialism involves  
7 the vesting of all property and all economic power in the  
8 state, and thus the end of all personal freedoms. Elimina-  
9 tion of the corporation income tax alone will not solve  
10 our problem, but no solution is possible without elimina-  
11 tion of this tax. The basic Soviet economic texts all  
12 state that the taxing of corporations in capitalist  
13 countries will bring about the destruction of capitalism.

14 62. If, by following the free enterprise capitalist  
15 route to prosperity, we can effectively broaden the base  
16 of capital ownership by our households, it is obvious that  
17 there would be a very great drop in government revenue  
18 needs. Unemployment relief could be limited to the  
19 physically unemployable, and the need for old age security  
20 and family allowances could rapidly decrease. Thus by  
21 this route, and only by this route, is there any real  
22 hope for making our people economically independent of  
23 the state and for decreasing the crushing burden of  
24 taxation now heaped onto our productive system.

25 63. Obviously, such changes cannot come about in one  
26 single step. However, a progressive reduction in  
27 corporation income taxes to zero over five years,  
28 accompanied by progressive imposition of taxes on un-  
29 distributed income and on dividends paid to foreigners,  
30 to institutions and to Canadian corporations, would achieve  
the needed result with no serious dislocation.





ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

Brief

for presentation to  
THE ROYAL COMMISSION ON TAXATION

by

The National Council of Women of Canada

190 Lisgar Street

Ottawa 4

April, 1963







1. The National Council of Women of Canada, which has the honour to present the following submission, comprises fifty-six Local Councils of Women, seven Provincial Councils of Women and twenty-one Nationally Organized Societies in Federation, with a membership of approximately 700,000 women from coast to coast.

2. The Council was founded by Lady Aberdeen, wife of the then Governor-General of Canada, in 1893, incorporated by Statute of the Parliament of Canada in 1914 (R.S.C. Chapter 147) and amended under Act 10, George VI, Chapter 85, in June of 1946. The object of the Council, as stated in the Act of Incorporation, is "to unite a Dominion federation, for the betterment throughout Canada of conditions pertaining to the family and the state, all societies and associations of women interested in philanthropy, religion, education, literature, art or social reform".

3. In order to further its object, the Council carries on work through committees for the gathering and disseminating of information as to conditions and requirements in various parts of Canada. Decisions on policy and on action are made by means of resolutions, based on studies undertaken by the organizations comprising the Council and adopted at an annual meeting of the Council. It is on such resolutions that the submission of the Council is based.





TAXATION ON ANNUITIES, PENSIONS, ETC.

4. In accordance with An Act Respecting the Taxation of Estates, September 6, 1958, as amended July 7, 1960, pensions, annuities, etc. are included in the estate for taxation purposes at their capitalized value. The National Council of Women submits that such capitalization is a breach of the general principles of evaluation for taxation purposes in that it is based on an average and does not allow for vicissitudes. In addition, it is not comparable to other assets of the estate as it cannot be transferred and the recipient cannot deal with the capital in any way. The payment of the tax works a hardship on the widow, as it must be paid in not more than six equal annual consecutive instalments. In the case of a young widow, whose pension would have a high capitalized value, the payment of such instalments is a severe hardship during the years when she is most likely to need extra support for herself and for her children, if any.

5. The inequity is recognized by the amendment of 1960 in which re-assessment is permitted in the event of the death or remarriage of the annuitant within four years. The National Council of Women submits that the four year limit on reassessment is unjustified and that the Estate Tax does not bear a proper relationship to the benefit received. The value of the pension should be taken as a percentage of the gross value of the estate and the same percentage of Estate Tax should







1 relate to the pension. The amount of tax attributable  
2 to the pension should be payable over the same number of  
3 years as that used in computing the capitalized value of  
4 the pension. \*If the pension ceases before the  
5 expiration of the calculated time, the Estate Tax should  
6 be deemed to have been paid in full.

7  
8 6. Not only does the widow have to pay the Estate  
9 Tax but also she must pay Income Tax on her annuity,  
10 with only an insignificant deduction being allowed under  
11 Part I, Division B, Section 11 (1) (v) of the Income  
12 Tax Act. The deduction itself is based on the capitalized  
13 value of the pension to which the National Council of  
14 Women has taken exception supra. The National Council  
15 of Women submits that the annual Estate Tax instalment  
16 payment proposed supra as a solution to the payment of  
17 Estate Tax on pensions, etc., should be an allowable  
18 deduction in computing taxable income. Thus, the double  
19 taxation at present existing would be simply and  
20 effectively eliminated.

21  
22 \* Example:

23 Widow aged 50

24 Present value factor 14.75861 or approximately 15

25 Value of pension is half of the value of the estate

26 Total Estate Tax payable \$3,000.

27 Therefore, tax attributable to pension \$1,500. which  
28 should be paid in annual instalments of \$100. over a  
29 15-year period.  
30





ESTATE TAX ACT DEDUCTIONS

7. Under Part I, Division C, Section 7, (1) (a) (1), of An Act Respecting Taxation of Estates, 7 Elizabeth II, Chapter 29, September 6, 1958, \$60,000. is the amount deductible in computing the aggregate taxable value of an estate of a deceased male person survived by a spouse. The National Council of Women submits that one-half of the estate should be regarded as belonging to the widow as of right, in recognition of her contribution to the marriage partnership, and therefore should not be included in computing the aggregate taxable value of the estate.

8. At present rates of interest, a safe investment programme for the average widow could not be expected to yield more than  $4\frac{1}{2}\%$  per annum or \$2,700. on \$60,000. If it is not deemed feasible for taxation purposes to regard one-half the estate of the deceased spouse as belonging to the widow, the National Council of Women respectfully submits that the exemption should be raised to at least \$100,000. which would yield only about \$4,500., a small income in the light of the cost of living index at the present time.

9. Section 7, supra, (1) (c) (1), permits a deduction of \$10,000. or \$15,000., as set out, in the case of a surviving child under twenty-one years of age or twenty-one and over and wholly dependent by reason of being infirm. Since  $4\frac{1}{2}\%$  interest on \$10,000. (\$450.) or





1 on \$15,000. (\$675.) is inadequate to feed, clothe,  
2 educate, house and otherwise provide for a school-aged  
3 child, \* the National Council of Women submits that  
4 the deduction should be based on the basic sum of  
5 \$10,000. or \$15,000. as the case may be, plus an  
6 additional \$1,000. for each year of age under twenty-one  
7 years. This would better ensure adequate care and  
8 education of the child and would render it possible to  
9 encroach on capital with impunity to meet his needs.  
10 Further, the National Council of Women submits that  
11 consideration should be given to extending the exemption  
12 of \$10,000. or \$15,000. where a surviving child is  
13 twenty-one years or over and still in full-time  
14 attendance at an institution of higher learning (post-  
15 secondary school level).

16  
17 \* As an example of food costs alone, in January, 1963,  
18 the Montreal Diet Dispensary calculated the costs as  
19 follows, basing the calculations on the Canadian Dietary  
20 Standards recommended by the Canadian Council on Nutrition:

|                |                 |
|----------------|-----------------|
| 21 Child 10-12 | \$20.33 monthly |
| 22 Girl 13-15  | \$24.23 monthly |
| 23 Boy 16-20   | \$30.82 monthly |

24  
25 INCOME TAX OF EMPLOYED SPOUSE

26  
27 10. Part I, Division A, Section 2(1), of the  
28 Income Tax Act requires every person resident in Canada  
29 at any time of the year to pay an income tax as required  
30 by the terms of the said Act. In Part I, Division B,





Section 21 (2) and (3), an exception is made in the case of the married person employed by his or her spouse or by a partnership in which his or her spouse is a partner, by the provision that the remuneration received by such married person shall not be included in his or her income but shall be deemed to have been part of the spouse's income. The National Council of Women submits that this exception is contrary to the general principle of taxation on income which requires that every person should pay an income tax and that it is discriminatory in nature, resulting in many cases in the payment of a greater total tax. \* Part I, Division C, Section 26 (2), (a) and (b), should apply in this case as it does to other married persons with income, provided always that the amount of monies paid by the employer spouse to the employee spouse does not exceed that customarily paid for the same type of work.

11. The present legislation militates against the initiative of husband and wife in setting up small businesses and professional partnerships (See Division B, Section 21 (4) ) when the expense of incorporation is not warranted. The contribution made by married women to the economy of our country is undisputed. \*\* To discriminate against those who wish to work with their husbands is unjustified and inequitable.

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\* As an example

Under S. 21 (2) and (3) supra







|   |                           |           |
|---|---------------------------|-----------|
| 1 | Income of employed spouse | \$4,000.  |
| 2 | Income of employer spouse | 10,000.   |
| 3 |                           | <hr/>     |
| 4 | Total income              | 14,000.   |
| 5 | Exemption                 | 2,000.    |
| 6 |                           | <hr/>     |
| 7 | Taxable Income            | 12,000.   |
| 8 | Tax                       | \$ 2,870. |

Under S. 26 (2) supra

|    |                           |           |
|----|---------------------------|-----------|
| 9  | Income of employed spouse | \$ 4,000. |
| 10 | Exemption                 | 1,000.    |
| 11 |                           | <hr/>     |
| 12 | Taxable income            | 3,000.    |
| 13 | Tax                       | \$ 420.   |

|    |                           |           |
|----|---------------------------|-----------|
| 14 |                           |           |
| 15 | Income of employer spouse | \$10,000. |
| 16 | Exemption                 | 1,000.    |
| 17 |                           | <hr/>     |
| 18 | Taxable income            | 9,000.    |
| 19 | Tax                       | \$ 1,870. |

20 Total \$420. plus \$1,870. = \$2,290.

21 i.e. \$580. less than under S. 21.

22 \*\* Married women (with husbands) constitute 13.14% of the  
23 total labour force (February 1963).

24  
25 INCOME TAX EXEMPTION IN RESPECT TO FEES PAID TO SPECIAL  
26 SCHOOLS

---

27  
28 12. The basic right of every child to an education  
29 is accepted in Canada and was affirmed categorically at  
30 the First Canadian Conference on Education held in





1 Ottawa in 1958. In the case of the retarded child,  
2 due to lack of public facilities, this is very often not  
3 possible without the expenditure of monies by the  
4 parents for special training in special schools. At  
5 present, the parents in such cases are not allowed to  
6 deduct the amount of the fees from their taxable income.  
7 This imposes a hardship on the parents and ~~may~~ preclude  
8 the possibility of providing the requisite special  
9 training. Not only does this militate against the  
10 child, but also it may result in his ultimately becoming  
11 a charge on society or a much greater charge than he  
12 would have become otherwise.

13  
14 13. The principle of special tax exemptions and  
15 deductions has been accepted in the Income Tax Act:  
16 service pensions, workmen's compensation, contributions  
17 to the teachers' fund, tuition fees at post-secondary  
18 school level, etc.\*

19 14. The National Council of Women submits that  
20 fees paid to recognized private and independent schools  
21 by parents of children so retarded as to be inadmissible  
22 to public schools should be deductible from taxable  
23 income.

24  
25 \* Income Tax Act, Part I, Division B, Section 10, (d)  
26 and (g), Section 11, (1) (qa) and (qb), etc.





DEDUCTION FOR SERVANT UNDER INCOME TAX ACT

15. Under Part I, Division C, Section 26 (4) of the Income Tax Act, an additional deduction for a dependent child is allowed only when a full-time servant is employed.

16. Since 1948, when the section was enacted, it has become increasingly difficult to obtain full-time servants. It is, however, often possible to obtain such household assistance on a part-time basis which, combined with the care and supervision of the taxpayer, outside of working hours, would ensure adequate and continuous care of the dependent child.

17. Therefore, the National Council of Women submits that the intent of the Act would be unaltered if the section were amended to allow deductions in respect of servants employed on such a regular, part-time basis as to ensure constant supervision and care of the dependent.

SALES TAX ON DRUGS

18. The National Council of Women is aware that the price of drugs has been under review by the Restrictive Trades Practices Commission in the Matter of an Inquiry under Section 42 of the Combines Investigation Act Relating to the Manufacture, Distribution and Sale of Drugs and it was interested in the findings of that Commission.

19. However, whether or not the cost of drugs is reduced as the result of such findings, the Council wishes to protest herewith the principle of a Federal Sales Tax being imposed on drugs. Drugs are necessary to maintain the health of the citizens and thus should be on the same tax basis as food, on which (with the exception of margarine) the Federal Sales Tax is not imposed.







1 SALES TAX ON MARGARINE

2  
3 20. The National Council of Women protests the  
4 principle of imposing a Federal Sales Tax on any food  
5 and therefore respectfully requests the removal of the  
6 11% Sales Tax on margarine. The said Tax is unjust to  
7 Canadian consumers, particularly to those of lower  
8 income, and tends to work against diversification in  
9 agriculture.

10  
11 IN SUMMARY

12 21. The National Council of Women respectfully  
13 submits:

14 1. That the Estate Tax Act should be amended

15 (i) To permit instalment payment of the  
16 Estate Tax related to pensions, annuities,  
17 etc.;

18 (ii) To provide increased deductions for widows  
19 and children.

20 2. That the Income Tax Act should be amended

21 (i) To eliminate double taxation (i.e. Estate  
22 plus Income Tax) on widows' Pensions,  
23 annuities, etc.:

24 (ii) To eliminate discrimination with respect  
25 to payment of Income Tax by one spouse  
26 employed by the other spouse;

27 (iii) To allow the deduction in computing  
28 taxable income of the fees paid to  
29 special schools by parents of retarded  
30 children;





(iv) To allow deductions for part-time  
servants where deductions for full-  
time servants permitted under  
present Act.

3. That the Federal Sales Tax should not be  
on

(i) Drugs

(ii) Margarine.





ANGUS. STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

SUBMISSION  
OF  
FURMAN CONSTRUCTION CO. LTD.  
BUILDERS

1010 St. Catherine St. E.

Montreal, Que.

Tel. Avenue 8-9687

January 25th, 1963.

Mr. Michael Pitfield,  
Secretary pro tem.,  
Royal Commission on Taxation,  
P.O. Box 466,  
Ottawa, Ontario.

Re: File 520-14-33 January 22nd 1963

Dear Mr. Pitfield,

I wish to apologise for not answering your previous letters sooner, reason: I was in some indecisions as to what to do but I will try to explain to you, Mr. Pitfield, what position my business found itself due to interference by Income Tax ruling and regulations and leave to your better judgment to decide if you think that my submission would help the Royal Commission on Taxation to get better picture of the tax situation in our country, than I will be glad to submit my brief (verbal submission would be preferable).

Here is the story: I am in the construction and development business since 1934, incorporated under Quebec Charter in 1952, this is strictly a family enterprise. During all those years business operated under the following principles: all expenses for architecture,





1 engineering, town planning, brokerage fees, etc., were  
2 put as current expenses and were approved by the Income  
3 Tax Department (latest approval October 1955).

4 In 1956, we have started development of a New  
5 Town Site; we had assembled a large track of land, engaged  
6 services of town planners, architects and engineers to  
7 complete town planning by the end of 1958 and we were  
8 planning to start operation in 1959 with services  
9 installations and actual construction to start in 1960.  
10 Everything was going according to plans till June 1958,  
11 when Income Tax Department disallowed all our expenses  
12 for the years 1956-57 connected with the new development  
13 and ordered us to capitalise it on the new project as  
14 future expenses and pay income tax on all taxable income.  
15 Financially we were quite capable to carry out this  
16 project, we had secured taxable income from other sources,  
17 other jobs, balance of sale, etc. Due to this new ruling  
18 for 1956-57 we came automatically under this ruling for  
19 1958 and after. Our working capital was disturbed, let  
20 say taken away from us by Income Tax, throwing out of  
21 balance completely the whole project.

22 I have tried to obtain a loan from the chartered  
23 banks on a long term basis, banks are not permitted to  
24 do so, due to Government regulations; I have tried  
25 Industrial Bank of Canada, but was told that our business  
26 did not qualify under Government rules. Only resources  
27 left, were the private lenders with rates anywhere from  
28 18 to 24%, which is impossible. We had to stop further  
29 planning due to lack of working capital and the whole  
30 project came to dead end and almost to complete







1 liquidation of our business.

2 Effects of this ruling on unemployment:

3 As we were planning to start in 1959, we would  
4 had employed directly or indirectly at least 50 men; in  
5 1960, we would have had at least 150 men worked directly,  
6 and as the statistics tell us, for each man on construc-  
7 tion two more are employed in manufacture and supply, so  
8 in other words 150 men on the job means 450 men employed  
9 and in 1961, it could have been double and so on, so you  
10 see, Mr. Pitfield, those 450 men would have been paying  
11 Income tax on average let say \$250.00 a year, equal to  
12 \$110,000.00, my company would had pay approximately  
13 \$15,000.00 to \$20,000.00, equal to \$130,000.00. Now those  
14 450 men were drawing unemployment insurance, let say  
15 \$100.00 a month on average, each, for 4 months, equal to  
16 \$180,000.00 plus \$130,000.00 not earned it means over  
17 \$300,000.00 that the Government lost during 1960, may be  
18 much more, because each job creates new job, plus  
19 complete discouragement of farther initiative on our part.

20 Recommendation:

21 My recommendation would be that Income Tax  
22 Department should not disturb any business providing  
23 that it is operated honestly; not only Government rules  
24 and regulations should be applied but principles and  
25 common sense should prevail above all the rules. Govern-  
26 ment would gain ten times more in a very near future and  
27 would permit unlimited progress in our great country.  
28 Therefore, Mr. Pitfield, I will leave the decision to  
29 your consideration.  
30





ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

4

Sincerely yours,

(signed)

M. Furman, Pres.,

Furman Construction Co. Ltd.

P.S. During the years 1956-57 beside expenses for  
the project my Company still paid Income Tax on average  
of \$30,000.00 a year.





ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

1  
2 ROYAL COMMISSION ON TAXATION

3  
4 PROPOSALS CONCERNING PERSONAL INCOME TAX

5  
6 Submitted by:

7 C. W. R. Vallance,  
8 3550 Ridgewood Ave.  
9 Montreal 26, P.Q.  
10

11 1. This memorandum concerns the regulations relating  
12 to personal income tax in Canada. There are proposals  
13 regarding Deductions -- one on Medical Expenses, another  
14 on Charitable Donations. There is also a proposal on the  
15 Standard Deduction which may be taken in lieu of the  
16 other two named deductions.

17 2. It is proposed that

- 18 (a) The Standard Deduction be discontinued,  
19 (b) All medical expenses (as presently defined)  
20 should be allowable for tax deduction  
21 instead of 3% of net income as presently  
22 pertains, and  
23 (c) Charitable donations should no longer be  
24 allowed as a tax deduction ( or at least  
25 only permitted under strict safeguards  
26 against abuse).

27 3. In support of the above proposals it can be  
28 said confidently in relation to charitable donations that  
29 they have been subject to wide abuses. Further, such  
30 abuses are difficult to detect. Additionally it is felt







1 that it is inappropriate to seek tax relief on account of  
2 such donations.

3 4. The conditions attached to claims for tax re-  
4 lief on account of medical expenses are such that it is  
5 fairly common to find that someone incurring several  
6 hundred dollars worth of medical expenses may in the end  
7 receive only the same tax relief as someone who has had  
8 no medical expenses whatever. For these reasons it is  
9 felt that the Standard Deduction should be abolished and  
10 that greater relief should be provided for those who do  
11 in fact incur medical expenses.

# ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT  
MONTREAL

P. Q.

BRIEFS

VOLUME No.:

DATE:

8A

April 25, 1963

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

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ANGUS STONEHOUSE & CO. LTD  
TORONTO ONTARIO

1  
2 ROYAL COMMISSION ON TAXATION  
3  
4  
5

6 BRIEF

7 presented by

8 LA FÉDÉRATION DE QUÉBEC DES UNIONS RÉGIONALES

9 des

10 CAISSES POPULAIRES DESJARDINS  
11  
12  
13  
14  
15  
16  
17

18 MARCH 1963

(en français au verso)

19  
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## I - GENERAL PRINCIPLES

### Introduction

1. In the early part of this century the average working man decided to organize his own system of savings and credit. Victim as he was of usurious practices in the field of credit, he soon realized that the principle of self help was the only logical way to develop a credit system which would help him satisfy his essential economic needs and at the same time participate in the economic progress of the country.

2. The Caisses populaires, by their contribution to the general well-being of the families and to the national economic prosperity, are a help to the State in so far as it permits it to widen its fiscal possibilities while relieving the State from the considerable expenses it would have to carry in order to assist the working classes in meeting their essential needs were they not assuming the responsibility of organizing and operating institutions by which they can satisfy those needs while actively participating in the development of the national economy.

3. It is therefore the purpose of this brief to respectfully remind your Commission on Taxation in Canada that the Caisses populaires Desjardins do in fact contribute to the fiscal revenues of the State by widening its field of taxation due to the economic progress which they bring about and that they also relieve the State from monetary obligations through the efficient





1 fulfillment of economic functions without requiring  
2 financial assistance from the State.

3 4. The Caisses populaires Desjardins are savings and  
4 loans co-operatives. They are associations of small  
5 savers who, from their accumulated savings, make loans  
6 to each other in order to meet their essential economic  
7 needs.

8 5. People with modest means turn to co-operation  
9 in order to create for themselves a source of credit  
10 based on mutual understanding and supported by their own  
11 small savings. They capitalize their honesty, their  
12 initiative, their love for work and their desire to help  
13 each other in order to create a source of funds which  
14 permits them to establish and operate small economic  
15 enterprises and improve their economic and social standard  
16 of life. "Neither the bank, nor the loan company," said  
17 the founder of the first Caisse populaire in his testi-  
18 mony before the Committee of the House of Commons  
19 established in 1907 to study a proposed law of co-  
20 operative and industrial societies, "pretend they can  
21 answer the credit needs of the working man as he has no  
22 other security to offer, as a guarantee for payment,  
23 than his honesty and his willingness to repay".

24 6. It is the honesty of the average man and "his  
25 willingness to repay" which have made possible the  
26 establishment in Quebec of these decentralized co-oper-  
27 atives for savings and for loans, called "Caisses populaires"  
28 where, as Mr. Alphonse Desjardins said in his booklet  
29 on Caisses populaires (1911), "the honest, laborious,  
30 and thrifty workers and farmers can get the funds they







1 require to support their activities, build their home,  
2 free themselves from burdening debts and purchase their  
3 necessary needs on a cash basis."

4 7. Under the able and stimulating guidance of  
5 Alphonse Desjardins, official reporter for Hansard in  
6 Ottawa, the working classes, conscious that the usurious  
7 practices to which they were subjected by the small  
8 private lenders were the results of a lack of a credit  
9 system adopted to their needs, started to build for  
10 themselves their savings and credit institutions. They  
11 built them according to co-operative principles where  
12 they would be the users and beneficiaries of these savings

13 and loans institutions and where the needed capital,  
14 which is the result of their small accumulated savings,  
15 would play the role of a good servant receiving a limited  
16 compensation. These savings and loans institutions so  
17 organized by and for the people are the Caisses populaires,  
18 to which the name "Desjardins" has been added in order  
19 to perpetuate the memory of their founder Alphonse  
20 Desjardins. Through these Caisses populaires the average  
21 man knows how to solve his economic problems by himself.  
22 In his booklet on Caisses populaires, Alphonse Desjardins  
23 wrote: "The only way for people to run their own affairs  
24 without having to be indebted to anyone, is to group  
25 themselves in associations and take the advantages as well  
26 as the responsibilities which are inherent in a full  
27 control and a full participation in the economic life  
28 which is an indispensable corollary to the civic and  
29 political progress which we enjoy. After all -- and this  
30 is the essence of the system -- it is the people





1 themselves who make their own economic affairs. Today,  
2 instead of being governed, as people were two or three  
3 hundred years ago by an all powerfull king who presented  
4 himself as heaven-sent, we govern ourselves and decide  
5 on matters touching the political life through legislators  
6 which we freely elect. Why should it not be possible to  
7 have a system which is just as free with regard to the  
8 economic life? Our business system is far from being a  
9 true democracy. Our political system is basically  
10 democratic but as soon as you venture into the financial  
11 and economic world, you soon realize that it is governed  
12 by the aristocrats and the wealthy."

13 8. Besides forming citizens which are imbued with  
14 a sense of economic solidarity and self help, savings  
15 and loans co-operatives also help them develop the habit  
16 of thrift, while satisfying the credit needs of people on  
17 a decentralized basis which is efficient and low in cost.  
18 This is indeed the first step which must be taken by the  
19 people in order that they may organize their economic  
20 life satisfactorily and move ahead on the way to economic  
21 prosperity and social progress.

22 9. Caisses populaires devote themselves to this  
23 economic education of the average working man. They are  
24 a dynamic factor in the economic progress of the people.  
25 Alphonse Desjardins expressed his conviction in this  
26 regard in a brief on agriculture in Quebec, in which he  
27 said, "We have no hesitation to say that we would like to  
28 see the Caisse populaire, that is to say this association  
29 of modest local capital funds, become the centre of  
30 activity, the generating force of this movement (....).





1 One of the most efficient means to succeed is to assure  
2 the powerful assistance of credit by organizing a Caisse  
3 populaire which will serve as a pool for local savings  
4 which, in turn, will serve to make productive loans for  
5 individual or group initiatives which this renovating  
6 movement will have brought about."

7 10. Popular credit, in our trading economy which  
8 requires much capital, must be supported by popular  
9 savings; more than this, it must encourage the development  
10 of popular credit, as it is the habit of saving which  
11 provides people an apprenticeship in the use of credit.  
12 Credit to be efficient and popular must, in our modern  
13 economy, find its source of supply among the people; it  
14 must be controlled by the users themselves who will assure  
15 its proper administration and its judicious distribution  
16 at a low cost in order that it may be truly popular in  
17 its purpose which is to efficiently satisfy the credit  
18 needs of the working men.

19 11. The experience of the Mutual Credit institutions  
20 of Europe had convinced Alphonse Desjardins that co-  
21 operative principles had to be the basis of an efficient  
22 system of popular credit, because co-operation, besides  
23 calling for personal efforts, individual initiative, and  
24 a sense of foresight on the part of those using credit,  
25 multiplies their individual forces by co-ordinating them  
26 so as to permit people to solve their common problems by  
27 themselves.

28 12. This is why the co-operative for popular credit  
29 is first of all a savings institution. An institution  
30 which teaches the average working man a sense of foresight,







1 a sense of thrift, the habit of small savings in order  
2 that they will be able to develop by themselves, through  
3 their own savings, their own credit institutions. In  
4 this way the average working men will build and administer  
5 the necessary institutions aimed at satisfying their  
6 essential economic needs and become an important factor  
7 in the economic progress of the nation without having to  
8 count on the help of the State. Is it possible to  
9 satisfactorily organize the economy of a nation without,  
10 first of all, developing among the people a sense of fore-  
11 sight and of thrift, and without gathering for proper use  
12 the small savings which will result from the practice of  
13 foresight and thrift among the people? "As for savings",  
14 wrote Alphonse Desjardins on October 18, 1900, in a  
15 letter to Charles Rayneri, director of the French  
16 Federation for popular credit, "I wish our societies to  
17 be real schools which will teach the practice of this  
18 social virtue and to this end we will accept deposits  
19 which could be as small as five cents."

20 13. In the earlier part of the century, people had  
21 very little money and did not have the habit of saving.  
22 In his brief to study a proposed law concerning co-  
23 operatives and industrial societies, Alphonse Desjardins  
24 stated: "The average man does not think that he should  
25 save because, he argues, it is not worthwhile to put any  
26 money aside." Further in his brief on the organization  
27 of agriculture in Quebec he speaks about the "contempt  
28 for savings" and of "loath towards small savings" which  
29 exists among people comparing it to a "national vice",  
30 "a source of individual and collective misery and







1 suffering which brings about a general undesirable  
2 situation which keeps our populations in a deplorable  
3 economic dependance."

4 14. Education towards thrift and savings this is  
5 the first task with which Alphonse Desjardins entrusted  
6 the Caisse populaire. It must gather all of the savings,  
7 and use them as an economic power.

8 15. Man is intelligent and able to plan, but he is  
9 not naturally inclined towards savings. That is why  
10 people are in need of protection, as they are more in-  
11 clined towards spending their money than saving it.

12 The Caisse populaire provides such a protection. It  
13 encourages savings, constantly insists on its necessity,  
14 facilitates savings deposits; at the Caisse populaire,  
15 savings is made easy for all. All small savings must  
16 be gathered otherwise they face the danger of being  
17 wasted. The Caisse populaire tries to salvage all small  
18 savings, which are the result of work. In addition to  
19 making savings deposits easy, the Caisses populaires  
20 Desjardins assure their security and a wise use of them.  
21 This is one of the basic rule which they observe so that  
22 they may be true to their first purpose which is to be a  
23 savings co-operative.

24 16. The thinking of the founder of the Caisses  
25 populaires in this regard, is well expressed in a speech  
26 which he made in Quebec, in 1908, at a meeting of young  
27 people: "But, will they say, why should we have these  
28 savings institutions, do we not have banks which through  
29 their branches go everywhere to gather the savings?  
30 First of all, banks are not created to help the masses





1 or to bring social solution to an economic problem. They  
2 were never intended for that purpose, and it is a bless-  
3 ing, as they are not geared for such a mission. They  
4 would therefore fail in such a task while at the same time  
5 failing to be profitable to their shareholders which is  
6 the main reason for their creation. Let each organization  
7 pursue the aim for which it was set up and designed, and  
8 things will, in this way, be better.

9 17. Secondly, can it be said that banks go every-  
10 where? Without taking into consideration the economic  
11 danger brought about by this perpetual drainage of local  
12 savings to the sole advantage of large centers and at the  
13 same time to the sole advantage of a certain group, is it  
14 not true that -- regardless of the disturbing multiplicity  
15 of bank branches during the past few years -- the great  
16 majority of our parishes are without these savings  
17 reservoirs? And the reason for this situation is easy  
18 to explain, a bank is set up for the sole advantage of  
19 its shareholders, not as a social institution which wants  
20 to help without assurances or hopes of healthy profits.  
21 What it wants are profits which will increase the year  
22 end dividend. There lies the naked truth. So there are  
23 a large group of parishes where a sub-agency or a bank  
24 branch would be unprofitable and bring no profits.  
25 Banks therefore do not provide services in these parishes.  
26 Should we be astonished by this situation or deplore it?  
27 Far from regretting it we have all the reasons to be  
28 pleased with it, if such a situation will have as a  
29 result an awakening of local initiatives which will bring  
30 about the creation of an institution which will be of





1 much more help and much more in accordance with the needs  
2 of our parishes, an institution which is known as the  
3 Caisse populaire.

4 18. Finally, banks do not provide credit to the  
5 average working man. They lend money to a group of  
6 customers which are primarily recruited among the large  
7 industrial and trade organizations (...). Without being  
8 too concerned with the fate of the banks, knowing that  
9 they can take care of themselves, we can state that the  
10 multiplication of Caisses populaires would be to their  
11 advantage as they would increase the amount of savings  
12 and in so doing, the total wealth of the country. This,  
13 in turn, would increase the economic activities and be  
14 profitable for the large banks. This is what has  
15 happened elsewhere. Why should it not bring about the  
16 similar results here? Since when elementary schools are  
17 harmful to universities? Is it not necessary to learn  
18 how to read and write before entering these places of  
19 higher education? And so it is with the Caisse populaire,  
20 it is the elementary school of economics. Whatever we  
21 do, the large bank will never bother to gather the  
22 "penny", because of its luxurious organization and its  
23 higher paid personnel, this would be too costly. The  
24 Caisse populaire on the other hand will be able to do it  
25 easily, first because it is its duty and then because its  
26 operations are based on a devotion to a social cause."  
27 19. The objective pursued by the Caisses populaires  
28 through their general policy on credit granting and loan  
29 repayments by small regular instalments does not differ  
30 from that other objective which they wish to reach as







savings co-operatives. The loan service of the Caisse populaire Desjardins is motivated by the same principle and pursues the same objective as the savings service: to better the social and economic life of its members. This is always attained in one way or the other through the practice of foresight, thrift, and regular savings. Borrowers are urged and encouraged to practice foresight and thrift through regular small repayments on their loans which demand that they put aside small savings for that purpose and by so doing better their economic and social life. This is the reason why the credit committee of the Caisse populaire must know the purpose for which the loan is required so that it will be assured that the loans are advantageous and helpful to the borrowers. This is also why the credit committee insists that the borrowers agree to make regular small repayments on their loans in order to encourage them to administer their affairs in an orderly way and practice foresight, restrain and thrift, and by such sustained efforts to organize their affairs and way of life so that they can realize the savings which will permit them to better their economic and social life. This is the type of economic and social education performed by members of the credit committee of a Caisse populaire, who performs its duties according to the principles laid down by the founder who wanted his Caisse populaire to be a practical school of economic and social education for the population of our parishes.

20. The wise use of credit requires on the part of borrowers moral qualities and a certain amount of professional aptitudes. Members, in order to borrow from







1 their Caisse populaire, must have a certain number of  
2 qualities which will be in their favour at the Caisse  
3 populaire. They must first of all be members which means  
4 according to the rules (art. 7) that they must be "honest,  
5 ready to meet their obligations, thrifty and industrious."  
6 The members of the credit committee, when examining a  
7 loan demand, will first of all consider the moral security  
8 of the borrower, then his ability to repay. Honesty is  
9 the greatest wealth. It is the first consideration. To  
10 use one of the expression of Mr. Luzzati, founder of the  
11 co-operative banks in Italy, Caisses populaires "capita-  
12 lize honesty. This is the essence of their credit policy.  
13 Caisses populaires first take into consideration the moral  
14 value and the professional aptitudes or qualities of their  
15 members in need of borrowing and then ascertain their  
16 financial situation. They also ascertain that loans will  
17 be used for provident and productive purposes and that  
18 repayments will be made according to conditions laid down  
19 by the borrowers and acceptable to the credit committee.

20 21. These are as many requirements which demonstrate  
21 that Caisses populaires are truly schools for the economic  
22 and social education of the average working man and that  
23 their main objective is to help people of modest means  
24 to help themselves to better their economic situation and  
25 become an important factor in the development of the  
26 Canadian economy as a whole.

27  
28 Caisses populaires provide economic education for the  
29 families.  
30





22. Caisses populaires, as we have already pointed out, are in the parishes, schools which teach foresight, thrift, regular savings and the wise use of credit.

23. They try to protect the savings which they receive and see that they are well used. They also have as an objective to bring about a better administration of the family budget. When families of the same parish associate themselves in a Caisse populaire, their aim is to help each other. This mutual self help cannot be limited to the safekeeping and wise use of their savings; it also extends to family financial counselling. The objectives being pursued by a Caisse populaire obviously require this extension of services. Savings are not growing at a rate which is sufficient to meet the investment needs of our young country. In addition to this, and despite or because of higher revenues and salaries enjoyed by Canadians, consumer debts have, since the last war, taken considerable proportions which are cause for concern. Living conditions, aspirations and needs of our families have under the pressure of industrialization and urbanization undergone deep transformations.

24. La Fédération de Québec des Unions régionales des Caisses populaires Desjardins and the Desjardins Mutual Life Assurance Company have for sometime been conscious of their responsibilities in that regard and in order that the Caisses populaires movement be well informed on the present living conditions and needs of our families in Quebec, these two organizations, in 1957, charged the Social Research Department of Laval University with the responsibility of conducting a scientific survey on the





1 living conditions, aspirations and needs of the salaried  
2 and wage earning families of the province of Quebec.  
3 Such a survey has supplied us with enormous data and  
4 information on the various factors which motivate and  
5 condition family decisions with regard to savings and the  
6 use of credit to meet their consumer needs. This survey  
7 has informed us on the living standard, the aspirations  
8 and the needs of the families, it has provided the leaders  
9 of our Caisses populaires with facts which will permit  
10 them to establish sound policies concerning savings and  
11 credit, and recommend ways and means which will help  
12 families to better administer their revenues, make a more  
13 discriminate and wise use of credit and build reserves  
14 for the future.

15  
16 Non-profit democratic institutions

17  
18 25. As any other co-operative, the Caisse populaire  
19 contains two essential elements: 1) It is an association  
20 of people; b) It is an economic institution. From these  
21 two elements, two basic rules are established: a) the  
22 rule of the equality of the members with regard to their  
23 mutual relations within their Caisse populaire, b) the  
24 rule of equity with regard to the institution itself and  
25 the distribution of its operating surpluses among its  
26 members.

27 26. The rule of the equality of the members requires  
28 the application of two co-operative principles: 1) One  
29 member, one vote -- all members are equal when it comes  
30 to the control and administration of their Caisse populaire;





1 2) all people it intends to serve are equally free to  
2 be or not to be members of the Caisse populaire.

3 27. Caisses populaires are associations of people,  
4 they are not associations of capital funds or shareholding  
5 companies as are the banks or finance companies. In a  
6 Caisse populaire the voting power is attached to the  
7 person; in the bank the voting power is attached to the  
8 shares, the money. Members of a Caisse populaire take  
9 their decisions at annual meetings or special meeting on  
10 the principle of one member, one vote, and not on the  
11 basis in use in capitalistic societies where each share-  
12 holder has as many votes as he has shares. Shareholders  
13 of a bank based on the capitalistic principle who own  
14 or through proxies control more than 50% of the shares  
15 can effectively control the organization, take adminis-  
16 trative decisions and determine the amount and the way  
17 profits are distributed to shareholders.

18 28. Members of a Caisse populaire are, at the same  
19 time the owners, users, and beneficiaries of their  
20 organization. They entrust it with the administration  
21 of their savings, borrow from it when in need of money.  
22 They choose, among themselves and in accordance with the  
23 social rule of one member, one vote, the members of the  
24 three boards or committees which administer their Caisse  
25 populaire, make them loans and supervise its operations.  
26 The mutual relations among the members are therefore  
27 developed and based on social equality which guarantees  
28 the co-operative principle: One member, one vote.  
29  
30









1 Equitable distribution of the operating surplus to the  
2 members and limitation of interest on their capital

3  
4 29. The Caisse populaire Desjardins is the inte-  
5 gration of two forms of co-operatives: the savings co-  
6 operative and the credit co-operative.

7 30. It is therefore important to keep in mind this  
8 double characteristic of the Caisse populaire in order  
9 to understand how the co-operative principle of distribu-  
10 ting surplus to members is applied. It is done in  
11 proportion of the business done by the members with their  
12 Caisse popular.

13 31. The rule of equity which regulates the economic  
14 relations of the Caisse populaire with its members  
15 requires the application of two co-operative principles  
16 whereby surpluses of operations are paid back to the  
17 members in relation to their volume of transactions with  
18 their Caisse populaire: 1) a limitation of the interest  
19 paid on capital; 2) a return of the surpluses to the  
20 members in proportion to the transactions they have made  
21 with their Caisse populaire and not in accordance with  
22 capital invested in their Caisse populaire.

23 32. The Caisse populaire pays a limited interest on  
24 its share capital (capital social). This interest is  
25 slightly higher than that paid on savings, because the  
26 members' financial responsibility is in relation to their  
27 social shares; in this way social capital involves a  
28 certain risk which does not exist as far as savings are  
29 concerned. It must also be noted that the member has  
30 to pay an "entrance fee" on each share and that the





1 shares do not fluctuate in value even if through increases  
2 in the affairs of the society and efficient management,  
3 a increase in their value would be warranted. This  
4 entrance fee is a direct contribution to the reserve fund  
5 of the Caisse populaire. The member will never receive  
6 it back. That is why the Caisse populaire pays to its  
7 members a slightly higher interest on social share  
8 capital. This interest on social share capital is called  
9 a "boni" (a bonus) in order to distinguish it from  
10 ordinary interest on savings. It is not the dividend  
11 which in a bank represents the distribution of the profits  
12 among shareholders in proportion to shares held. If  
13 this "boni" or bonus was similar to the dividend, it  
14 would, as dividend do, increase as net profits increase;  
15 the higher the profits the higher the dividend. But  
16 this is not the case in a Caisse populaire. The Caisse  
17 populaire Desjardins limits the interest on the social  
18 capital, treats it as a good servant and pays it a  
19 reasonable compensation.

20 33. The Caisse populaire pays to its depositing  
21 members a reasonable interest on savings, (at the rate  
22 which is usually paid in the other savings institutions)  
23 and charges a slightly higher rate to its borrowing  
24 members. The margin which so exists between the interest  
25 received from loans and investments and the interest  
26 paid on savings is established so as to pay for adminis-  
27 trative expenses, create necessary reserves, cover  
28 possible losses and pay a reasonable interest on the  
29 social capital of the members.  
30





Operations based on going rates on the market

34. This co-operative principle of operation concerns competition. The members do not have to enter into competition with other financial organizations by offering or charging interest rates which are higher or lower than the going rates on the market.

35. Figures reported on page 114 of our brief to the Royal Commission on Banking and Finance show that as at December 31st, 1961, 1105 Caisses populaires out of a total number of 1212 had paid interest on capital at rates ranging from 3% to 5%. The mode and median was 4%, the arithmetic mean 4.06% while the average weighted by the amount of social capital at December 31st, 1961, was 4.90%.

36. On page 110 of the same brief, we find that 1149 Caisses populaires out of the 1212 in operation on December 31st, 1961, paid rates ranging from 2% to 3.49% on savings; 635 Caisses populaires paid between 3% and 3.49% which means that the majority of them were paying 3% which is the rate paid by banks. The mode and median was 3%, the arithmetic mean 2.72% and the average weighted by the savings as at December 31st, 1961, was 2.96%.

37. As far as rates of interest on loans, figures stated on page 103 of the same brief show that 1126 Caisses populaires out of the 1212 were, as at December 31st, 1961, charging between 6% and 7.49% on personal loans. The mode and median was 7%, the arithmetic mean 6.63% and the average weighted by the outstanding loans at December 31st, 1961, was 6.75%; 812 Caisses populaires





1 out of 1212 were charging rates ranging between 6% and  
2 6.99% for mortgage loans. The mode and median was 6%,  
3 the arithmetic mean 5.57% and the average weighted by  
4 the loans outstanding as at December 31st, 1961, was  
5 6.32%.

6 38. Interest on loans is always calculated on the  
7 balance due, the rates of interest mentioned above are  
8 therefore true rates of interest. A Caisse populaire  
9 never charges interest on the original amount of a loan  
10 for the whole period of the loan as certain institutions  
11 do, which in such a case increases the true interest rate  
12 being charged considerably. Moreover Caisses populaires  
13 never charge administration fees on loans or a minimum  
14 interest charge even though the actual interest due in  
15 some cases may not exceed 10 cents or 20 cents.

16 39. We may explain the success which Caisses  
17 populaires enjoy as follows:

18  
19 a) Decentralization-

20 - Each Caisse populaire is an autonomous organization.  
21 It receives the savings of its members in the parish  
22 and lends them to the same members. Local funds are  
23 thus used locally in order to increase the prosperity  
24 and well-being of the local area.

25 b) Services -

26 - The fact that the member is one of the owners of  
27 the organization, being served by someone from his  
28 parish who knows his problems; the quality of the  
29 services being rendered; all these are factors which  
30 are attractive to the member and encourages him to









1 deposit his savings at his Caisse populaire and to  
2 borrow from it.

3 40. Caisses populaires do not practice a trading  
4 business of money; they do not operate for the benefit  
5 of a few members by using the savings of the general  
6 public. Only members can deposit their savings in their  
7 Caisse populaire and only members may borrow. Members  
8 put their savings in a common pool to use them, not to  
9 permit a small group among them to make profits with the  
10 money deposited by the others. Caisses populaires do  
11 not borrow money and do not receive deposits from persons  
12 who are not members in order to lend that money for  
13 profits.

14 41. Banks, on the contrary, accept deposits from  
15 all and lend to those whom are deem to offer the best  
16 possible chances of making a profit; they receive savings  
17 deposits from the public and lend them at a higher rate  
18 of interest with the aim of making a profit. Their  
19 shareholders then share these profits in proportion to  
20 the number of shares they individually own in the banks.  
21 As the term "dividend" well indicates the shareholders share  
22 the profits in relation to the shares they own, without  
23 taking into consideration that the shares increase in  
24 value as the business progresses which also means a  
25 profit for the shareholders. In addition to receiving  
26 a dividend the shareholder eventually realizes a capital  
27 gain.

28 42. Caisses populaires cannot know in advance the  
29 exact amount of the total of their administrative  
30 expenses or the precise amount of interest they will have





1 to pay on their share capital and savings as both are of  
2 a fluctuating nature. They set an interest rate on loans  
3 which will, as far as it can be ascertained, bring in an  
4 income which will exceed the total amount of expenses and  
5 interest they will have to pay, and provide for necessary  
6 reserves. If at the year end there exists a surplus  
7 after paying a reasonable interest on the social share  
8 capital, the Caisse populaire will return to its borrowers  
9 that part of the overcharge of interest on loans which  
10 that net surplus represents. This interest refund of the  
11 net surplus brings back its lending operations to a "cost  
12 basis".

13 43. This interest refund necessarily varies  
14 according to the amount of interest which has been over-  
15 paid on the loans secured from the Caisse populaire by  
16 its borrowing members. The larger the loan, the larger  
17 the total amount of interest paid, and therefore the  
18 larger the interest refund to the borrowers. This is  
19 what we term the principle of refunding the net surplus  
20 in accordance with the basic rule of equity which returns  
21 to each member what is due to him; it is the distribu-  
22 tion of the net surpluses in proportion to the business  
23 transacted by the borrowing members at their Caisse  
24 populaire.

25 44. In dealing with this matter of the net surpluses  
26 of the Caisse populaire, Mr. Desjardins wrote in his  
27 booklet on Caisses populaires, "The Caisses populaires  
28 have adopted as a basic rule to treat both the savings  
29 members and the borrowing members with equal justice."  
30 So, on the one hand, each time the interest (boni) on





1 capital social is increased, the conditions offered to  
2 borrowing members are improved on the other. This is  
3 putting into practice the co-operative principle which  
4 governs these savings and loan societies. This, you will  
5 argue, is a new principle in such matters, but this  
6 principle is acceptable because it is based on the well  
7 understood rule of equity and solidarity. We must also  
8 keep in mind that the borrowers also benefit from an  
9 increase of interest on social share capital as they are  
10 members and as such own social shares which benefit from  
11 the increase. It therefore follows that all members are  
12 doubly interested in the welfare of the Caisse populaire  
13 (as savers and as possible borrowers) because of the  
14 advantages they can all receive.

15 45. Mr. Desjardins wished his Caisse populaire to  
16 give each member what was due to him, treating with equal  
17 justice the depositors and the borrowers: the first  
18 receiving a reasonable interest and the second benefitting  
19 from a lower cost of borrowing by reducing it through an  
20 interest refund when net operating surpluses existed.

21 46. Caisses populaires follow this principle of  
22 justice for all their members. Article 46 of their  
23 general rules provide for this principle of treating all  
24 members with "equal justice" when distributing the net  
25 surplus as follows: "Any increase in the rate of  
26 interest paid on shares (boni) is followed by an equal  
27 improvement in the lending conditions offered to members  
28 either as a reduction in the interest rate charged on  
29 loans or otherwise."





1 47. It is possible that at the year end the Caisse  
2 populaire will have no surplus to distribute, once  
3 interest on savings and expenses have been paid, the legal  
4 reserves have been set aside and a reasonable interest  
5 has been paid on the social shares. In such a case the  
6 Caisse populaire does not have to pay an interest refund  
7 to the borrowers. As an organization which operates on  
8 a non-profit basis it has already operated on a cost  
9 basis.

10  
11 Administration without remuneration

12  
13 48. The Caisse populaire is an organization for  
14 people with modest means. Its operating cost is kept at  
15 a minimum in order that it will cost as little as  
16 possible to the members it wished to help. This is why  
17 its founder has required that its administration be on a  
18 free and voluntary basis. The manager and the employees  
19 of the Caisse populaire are the only ones who can receive  
20 a remuneration. So there are no attendance fees or  
21 commission paid to the administrators and leaders of a  
22 Caisse populaire, their services must be given absolutely  
23 free. The law governing the Caisses populaires in Quebec  
24 in fact states: "The services of the members of the  
25 boards of management, of the board of supervision and  
26 of the committee of credit shall be gratuitous. The  
27 manager may be paid for his services."

28 49. This form of voluntary and free administration  
29 of a Caisse populaire is facilitated by the fact that  
30 its activities are confined to the parishes where members









1 know each other. "All of the productive and provident  
2 activities of the Caisse populaire are essentially of a  
3 co-operative nature and therefore restricted to the  
4 members." and the law further states that "these activi-  
5 ties are not to be taken as constituting a commercial  
6 venture, a financial institution or a way to make a  
7 profit."

8 50. The Caisse populaire, as a general rule, can  
9 only accept as members people who live in its territorial  
10 boundaries which is the parish. Only members can  
11 participate in the operations of their Caisse populaire,  
12 only members may deposit their savings and only members  
13 may borrow from it. This co-operative character of  
14 Caisses populaires Desjardins which is approved by the  
15 law has on the other hand been recognized by the federal  
16 authorities on taxation. When the income tax law was  
17 amended in 1931 to exempt Caisses populaires from income  
18 taxes, the Honorable Euler, then Minister of National  
19 Revenue, declared, "The members of those organizations  
20 (Caisses populaires and Credit Unions) contribute their  
21 money for one purpose only; that those moneys shall  
22 again be loaned to the members themselves. It is entirely  
23 a co-operative institution." The material advantage  
24 which results is to lower operating cost at a strict  
25 minimum. Depositors and borrowers benefit from it  
26 because of this economy in administrative cost, members  
27 can benefit of interest rates which are most favorable.





1 Setting aside of an indivisible reserve

2  
3 51. Caisses populaires accumulate, from their  
4 annual net income, reserves for the purpose of protection  
5 against possible losses in their operations and to be in  
6 a position to render greater services to their members.

7 52. The economical administration of Caisses  
8 populaires, which is the result of uncomplicated and  
9 inexpensive operations due to a decentralization which  
10 operates at the level of the needs of the members, the  
11 voluntary and free administration, the direct contribution  
12 made by the members who pay an entrance fee on each  
13 social share which fee goes to the reserve fund; these  
14 are as many reasons which have permitted Caisses popu-  
15 laires to gradually build up necessary reserves to  
16 protect the savings of their members against possible  
17 losses and assure the administrative security of their  
18 Caisses populaires. These reserves belong to each indi-  
19 vidual Caisse populaire as such and can never be dis-  
20 tributed to the members. In case of dissolution of the  
21 Caisse populaire, the balance of its realized assets and  
22 that includes the reserves which remains with the Caisse  
23 populaire, is distributed or used in the territorial  
24 area of the Caisse populaire for general welfare purposes  
25 as assigned by the Lieutenant-Governor-in-Council.

26 53. Such a legal requirement prevents any attempt  
27 by the members to distribute and share the reserves of  
28 the Caisse populaire and shows that the Caisse populaire  
29 does not look for profits but aims at the mutual service  
30 of the members.





1 54. Such reserves help develop a great amount of  
2 confidence towards the Caisses populaires by the depositing  
3 members because they can see that such reserves protect  
4 their savings against possible losses and permits the  
5 Caisse populaire to provide greater services in a better  
6 way.

7 55. Caisses populaires attempt to provide their  
8 members, at the lowest possible cost, with certain econom-  
9 ic services which they need to attain a certain degree of  
10 well-being and move along in the way to economic prosperity  
11 and social progress. Caisses populaires have therefore  
12 been publicly recognized as useful organizations and  
13 institutions which it would be imperative to establish  
14 and develop in the interest of the nation were they not  
15 already existing.

## 17 II - INSTITUTIONS USEFUL TO THE PUBLIC

### 19 Financial help from the State

21 56. The Federal Government has never been called  
22 upon to spend any money in any way to help supervise or  
23 control Caisses populaires which by the way come under  
24 provincial jurisdiction.

25 57. The same thing can be said about the Quebec  
26 Government except for an annual grant of \$90,000. which  
27 is paid to La Federation de Quebec des Unions regionales  
28 des Caisses populaires Desjardins to help it bring finan-  
29 cial services to areas which would otherwise be without  
30 them.





1 58. Caisses populaires have developed and organized  
2 on their own the professional leaders which they needed  
3 and they defray their cost.  
4

5 Annual dues

6 59. Caisses populaires therefore pay annual dues to  
7 permit their regional unions and their provincial federa-  
8 tions to organize and keep a central office and maintain  
9 such services as education, inspection and audit, analysis  
10 of investments, research and miscellaneous information.  
11 This, during the fiscal year 1961-62 required the  
12 affiliated Caisses populaires to pay \$1,398,305.23 in  
13 membership dues which were used as follows:

|    |                                 |               |
|----|---------------------------------|---------------|
| 14 | Security Fund:                  | \$ 122,297.00 |
| 15 | For technical services provided |               |
| 16 | by the regional unions:         | \$ 479,662.42 |
| 17 | La Fédération de Québec des     |               |
| 18 | Unions régionales des Caisses   |               |
| 19 | populaires Desjardins:          | \$ 796,345.81 |
| 20 |                                 |               |

21 Areas where banking services are non-existent

22 60. Despite this lack of financial contribution by  
23 the Federal Government and the small grant provided by  
24 Quebec, 668 of our 1254 affiliated Caisses populaires are  
25 established in localities where no bank branches exist.  
26 In these 668 localities there exist 68 banks agencies and  
27 129 sub-agencies, which means areas so organized by the  
28 banks in order to gather the deposits of the population  
29 but without the regular lending services which are  
30 generally, if not exclusively, reserved to the bank







1 branches. There were therefore 471 Caisses populaires es-  
2 tablished where bank services were completely non-existent.

3 61. A good number of Caisses populaires have been  
4 established and operate in far away localities which are  
5 even difficult to reach. The following will serve as an  
6 example:

| Regions | Number<br>of<br>Caisses<br>Popu-<br>laires | Localities<br>where there<br>is a bank<br>branch | Other local-<br>ities where<br>there is an<br>agency or a<br>sub-agency<br>of a bank |
|---------|--------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------------------------|
| _____   | _____                                      | _____                                            | _____                                                                                |

13 Union régionale de

14 l'Ouest-Québécois

15 (East-Abitibi, West-

16 Abitibi, Rouyn Noranda). 38 5 2

17 Union régionale de Gaspé

18 a) Magdelene Islands 7 0 1

19 b) North Gaspé, South

20 Gaspe, Bonaventure. 40 7 5

21 North Shore (Eastward

22 from Seven Islands, 500

23 miles north of Quebec

24 City) 8 1 0

25 93 13 8

26 62. A Caisse populaire has even been established

27 among the Eskimos at Povungnetuk, on the north east shore  
28 of the Hudson Bay.

29 63. The organization of Caisses populaires for the





1 benefit of these populations which have been neglected by  
2 capitalistic enterprises which see no possible profit in  
3 rendering services there or exploit them when they do, is  
4 an uncalculable contribution which relieves the State  
5 from a heavy financial burden. The Caisses populaires  
6 movement alone has borne all the necessary expenses to  
7 give these populations a democratic way to accumulate  
8 savings and use them locally for productive and provident  
9 loans.

10

11 The promotion of savings

12

13 64. Caisses populaires have organized and maintained  
14 an efficient savings service which has brought about since  
15 1901 an accumulation of a considerable amount of savings;  
16 the total amount of savings in our affiliated Caisses  
17 populaires now exceeds \$750,000,000. These are the  
18 results of years of popular promotion and education by  
19 various means.

20

21 School Caisses

22

23 65. As soon as the first Caisse populaire was  
24 established in Levis, Mr. Desjardins started to promote  
25 the savings of pennies in schools. Caisses populaires  
26 have continued in this tradition of encouraging small  
27 savings with worthwhile results. Over the years school  
28 Caisses populaires have changed in concept but their  
29 principle has never changed: to encourage and teach  
30 school children to practice thrift and the savings habits.





1 66. As at December 31, 1962, there were 368,240  
2 school children participating in these Caisses and they  
3 had accumulated savings of \$7,245,000. Some 650 Caisses  
4 populaires in the province sponsor school Caisses popu-  
5 laires in close to 2,000 schools.

7 Professional and administrative education

9 67. One of the aims pursued by the Caisse populaire  
10 is to "spread among its members the knowledge and  
11 practical application of the elementary principle of  
12 economic science." By teaching the members the habit of  
13 savings, we help them understand the value of money and  
14 of its use for personal benefits as well as those of the  
15 nation. And so it is with regard to the general policy  
16 on small loans for productive and provident purposes which  
17 the Caisses populaires make; they foster a freedom from  
18 debts on the part of the members who eventually become  
19 savers. But it is more at the level of the administrators,  
20 members of credit committees and members of supervisory  
21 committees that this economic education is more evident.  
22 Each Caisse populaire is an autonomous co-operative with  
23 its own board of directors of at least 5 members, a credit  
24 committee and a supervisory committee of three members  
25 each, which gives at the minimum a group of eleven lead-  
26 ers in each Caisse populaire. As many Caisses populaires  
27 have board of directors of 7, 9 or even more members, it  
28 can be said that close to 20,000 people are participating  
29 in the administration and leadership of the local Caisses  
30 populaires, the regional unions of Caisse populaires and





1 La Federation de Quebec des Unions regionales des Caisses  
2 populaires Desjardins.

3 68. All these people are learning the process of  
4 administration of a Caisse populaire, how to interpret  
5 financial statements and how to analyse loans and invest-  
6 ments, etc. All this training and acquired information  
7 received through their participation in the leadership  
8 of the Caisse populaire is an asset for them in their  
9 daily task, their profession or trade from which the  
10 community benefits.

11  
12 Education and publicity  
13

14 69. The regional unions under the leadership of the  
15 federation each maintain an education and publicity  
16 service. In addition to its work in the promotion, pre-  
17 paration and organization of new Caisses populaires, this  
18 service provides programs aimed at the co-operative  
19 education of the leaders and members. Some of the pro-  
20 grams include educations committees, informative confer-  
21 ences, courses on administration, group meetings of  
22 managers and presidents, regional meetings and conventions,  
23 etc.

24 70. The movement also publishes a monthly magazine  
25 "La Revue Desjardins" for the leaders and a membership  
26 magazine called "Ma Caisse".

27 71. In addition, various other publications, pam-  
28 phlets, etc., are distributed in order to inform the  
29 members and the general public on Caisses populaires and  
30 their services.







1 Complementary and information courses

2

3 72. Caisses populaires have also organized a few  
4 years ago a number of courses aimed at improving the  
5 knowledge of the directors, managers and employees of the  
6 movement.

7 73. New employees in groups of 40, are invited to  
8 attend various technical courses. Other employees of  
9 various categories can attend courses which permit them  
10 to specialize in certain aspect of the operations.  
11 Managers are often given the opportunity to meet economists  
12 and other specialists through week-end institutes. This  
13 permits them to explore the co-operative doctrine and  
14 benefit from the experience of other people. This has  
15 prepared the movement towards the creation of truly  
16 professional school of administration.

17

18 The Desjardins Institute

19

20 74. The various courses given all over the province  
21 have become so numerous and important that it has recently  
22 been decided to create a co-operative center for pro-  
23 fessional training. It will be known as "L'Institut  
24 Desjardins."

25 75. The experience acquired by those who are con-  
26 cerned with adult education and researchs in educational  
27 needs of the management and staff of the Caisses populaires  
28 have permitted the Desjardins movement to plan a project  
29 which will be unique in French speaking Canada. This  
30 residential center for professional training will be





erected in Levis at the Cite des Jardins, and will be able to accommodate groups of 40 to 50 people at a time.

Educational programs on television and radio

76. Both educational and publicity experts never cease to praise and cite in example, the close co-operation which has been developed during the past five years between Radio-Canada's educational and public affairs services, the Desjardins Mutual Life Assurance Company and the Caisses populaires Desjardins. The television programs which they have created have been a real success although a hazardous venture, in the beginning, for the sponsors. But the success of these TV programs whereby the average citizen is called upon to give his opinion on the problems which he has to face and which are studied by the programs.

77. The TV series "Joindre les deux bouts" was followed by over 1-1/2 million listeners, a record for this type of programs. The present series is known as "Droit de Cite" and deals with public administration of municipalities and school corporations.

78. The Caisses populaires Desjardins and the Desjardins Mutual Life Assurance Company have also been sponsoring a very popular program on the CBC French radio network, called "Fete au Village."

Fight against usury

79. Caisses populaires have proved to be efficient





tools to combat usury favoured actually by a system of instalment sales and by small loans at high interest rates.

80. The following figures show the importance of loans made both in number and value:

| <u>Fiscal year</u> | <u>Personal loans</u> |               | <u>Personal loans</u> |               |
|--------------------|-----------------------|---------------|-----------------------|---------------|
|                    | <u>Number</u>         | <u>Amount</u> | <u>Number</u>         | <u>Amount</u> |
| 1958               | 93,479                | \$48,567,100. | 18,055                | \$66,832,471. |
| 1959               | 101,326               | 56,565,201.   | 21,459                | 84,763,047.   |
| 1960               | 103,824               | 59,617,073.   | 17,637                | 64,993,017.   |
| 1961               | 115,593               | 72,051,631.   | 21,588                | 80,570,730.   |

81. For the year 1961, personal loans were divided as follows:

|                        | <u>Nombre</u>  | <u>Montant</u>       |
|------------------------|----------------|----------------------|
| Less than \$100.       | 11,747         | \$ 595,596.          |
| \$100. to \$199.99     | 16,818         | 2,225,754.           |
| \$200. to \$499.99     | 37,631         | 11,555,796.          |
| \$500. to \$999.99     | 29,400         | 18,299,353.          |
| \$1,000. to \$4,999.99 | 18,340         | 25,024,677.          |
| \$5,000. and over      | <u>1,657</u>   | <u>14,350,450.</u>   |
| Total:                 | <u>115,593</u> | <u>\$72,051,631.</u> |

82. Considerable sums of money have been spent by the Federal Government in addition to the countless hours of debate spent by the members of the House and the senators each year to find efficient ways to curb loans at exorbitant interest rates. The legislation which has been passed has generally been ineffective, credit





1 grantors and lenders always find ways and means to get  
2 around the law.

3 83. Caisses populaires have accomplished a consider-  
4 able amount of work with regard to promoting better con-  
5 ditions in the field of personal loans and home building  
6 loans. Their interest rates and conditions of easy re-  
7 payments make these types of loans possible to people with  
8 modest means. Net surpluses of operations when they occur  
9 are paid back to the borrowers as interest refunds.

10 84. Caisses populaires do not receive any advantage  
11 from the Federal Government but through their activities  
12 and those of their leaders and members, they add to the  
13 wealth of the population who then becomes in a better  
14 position to support tax requirements and increase the  
15 productive activity of the country.

16 85. It is due to these efforts on the part of Caisse  
17 populaires that banks have established branches in areas  
18 where they did not previously operate. Caisses populaires,  
19 over the years, had prepared the way through their con-  
20 tribution to the economic development of these areas.  
21 This phenomena will continue to happen due to the pioneer-  
22 ing efforts of the members of Caisses populaires and their  
23 leaders.

24  
25 Other services being rendered without compensation to the  
26 Federal and Provincial Governments

27  
28 86. It is we believe proper to point out here that  
29 Caisses populaires have rendered and are still rendering  
30 other services to the Federal Government without any







1 form of compensation although these are costly operations  
2 to the Caisses populaires. We wish to mention the cashing  
3 of government cheques without charge. Although the  
4 government keeps no deposits in the Caisses populaires  
5 while these deposits are kept in the banks. The Caisses  
6 populaires must therefore carry a debit float from the  
7 moment the cheque is cashed or credited to the members'  
8 account until it is reimbursed through a chartered bank.  
9 In addition, orders of payment drawn on Caisses populaires  
10 and payable to the Federal and Provincial Governments,  
11 being deposited in chartered banks, lengthen the delays  
12 of compensation and increase the debit float of the Caisses  
13 populaires by millions of dollars without taking into  
14 consideration a payment each year by the Caisses populaire  
15 of \$550,000. in commissions.

16 87. Caisses populaires as all other institutions  
17 have participated in the annual sale of Federal Government  
18 Savings Bonds, but in this matter they are treated as  
19 second class institutions as they have to pay these bonds  
20 before they can sell them to their members, while the  
21 banks receive these bonds on consignment. A similar un-  
22 favorable situation exists with regard to the cashing of  
23 the bonds or bond coupons which forces the Caisses  
24 populaires to support the debit float so created.

### 25 26 III - CONCLUSIONS

27  
28 88. The report of the Royal Commission on Co-  
29 operatives published in 1945 states the following:  
30 "people in poor circumstances are encouraged to develop





1 a habit of thrift," and the report says also that the  
2 Caisse populaire "provides a service for those who are  
3 either not provided with credit services from other lend-  
4 ing institutions at all, or only at much higher rates  
5 because of the risks involved." The affirmation that  
6 "Caisses populaires enable and encourage the members to  
7 solve their problems through self help rather than by  
8 relying on Government aid in times of emergency or depress-  
9 ed conditions," is conclusive.

10 89. The report continues: "We are satisfied that  
11 Caisses populaires perform a highly useful function in  
12 assisting people who are unable to take effective advan-  
13 tage of savings and loan facilities provided by other  
14 lending institutions. We are also satisfied that Caisses  
15 populaires are not displacing any other type of business  
16 enterprise, except to provide an alternative source of  
17 loans in a field where individual money lenders or lend-  
18 ing institutions do not provide similar credit facilities  
19 at comparable net rates. It is clear, therefore, that  
20 Caisses populaires provide a useful supplement to other  
21 lending institutions and that the continued development  
22 of Caisses populaires is desirable from the standpoint  
23 of the public interest."

24 90. "Caisses populaires return to their members a  
25 very high proportion of their surplus earnings. In some  
26 cases, however, they are retaining amounts which appear to  
27 be larger than are required for reserves against bad  
28 loans and losses on the basis of past experience. If they  
29 were to be taxed by the methods we have recommended for  
30 co-operative associations, additions to these excess





1 reserves would be made subject to tax. However, the  
2 individual amounts to be assessed would, in many cases,  
3 be very small. Moreover, we consider that it is not  
4 desirable to discourage the accumulation of reserves to  
5 protect the savings of members who, for the most part,  
6 receive small or very moderate incomes."

7 91. Finally, "It was argued, and with some justice,  
8 that dividends paid on withdrawable shares were similar  
9 to interest payments on bank deposits and should there-  
10 fore not be subject to deduction at the source."

11 92. This is why the Royal Commission on Co-operatives  
12 of 1945 has recommended:

13 1- "That the income of credit unions or Caisses  
14 populaires continue to be excepted from taxation under  
15 section 4, paragraph (q) of the Income War Tax Act."

16 2- "That section 4 (q) of the Income War Tax  
17 Act be amended to make it clear:

18 a) that it includes federations whose  
19 membership may comprise other credit unions,  
20 (Caisses populaires); co-operative associations,  
21 parishes, school districts and other similar  
22 bodies.

23 b) that organizations excepted thereunder  
24 must derive their revenues primarily from loans  
25 made to members."

26 93. The Canadian Government has in fact approved  
27 these recommendations and has incorporated them in the  
28 Income Tax Act -- Chapter 148 - Part I - Revised Statutes  
29 of Canada 1952:  
30





"Article 62 - No tax is payable under this part upon the taxable income of a person for a period when that person was ...

" (k) a corporation or association incorporated or organized as a Credit Union (Caisse populaire) or co-operative credit society if,

" (1) it was restricted to carrying on business in one province and it derived its revenues primarily from

" (A) loans made to, or cashing cheques for, members residing within the province, or

" B) Bonds of, or guaranteed by, the Government of Canada or a province, or

" C) Loans made to a co-operative credit society of which it is a member, or

" (ii) the members thereof were corporations or associations,

" A) incorporated or organized as Credit unions (Caisses populaires) substantially all of which derive their revenues primarily from loans made to members, or from bonds of, or guaranteed by the Government of Canada or a province.

" B) incorporated, organized or registered under provincial co-operative legislation or governed by such legislation, or...."

94. Caisses populaires Desjardins, as we have pointed out, are devoting themselves by every possible persuasive means; to the economic and social education of their members. They attempt to reach the families in order to help them administer their affairs and to live







1 within their means and in a sense of security. They try  
2 to protect them from the abuses which exist in the field  
3 of consumer credit and which are the cause of so many  
4 family bankruptcies. They urge their members to save in  
5 order to create a source of capital funds so necessary to  
6 meet the investments required to develop our economy and  
7 maintain our political autonomy.

8 95. Caisses populaires Desjardins therefore contri-  
9 bute their share to the prosperity and economic health of  
10 Canada. By teaching their members the wise use of credit  
11 and by maintaining that popular credit must be based on  
12 popular savings and be a function of it, Caisses populaires  
13 help regularize the consumer market and minimize periods  
14 of unemployment which result from an over production that  
15 can be attributed to an ill-used purchasing power and a  
16 massive use of credit.

17 96. Caisses populaires are an important factor in  
18 the economy progress and stability of the Canadian fami-  
19 lies. That is why thousands of citizens devote themselves  
20 to their administration without remuneration. They fully  
21 realize and believe that they are participating in a  
22 worthwhile program which aims to improve the general well-  
23 being of the population from which all will benefit; they  
24 are happy and glad to participate to the well-being of  
25 the families and to the prosperity of the nation. This  
26 is their remuneration and their salary.

27 -----

28  
29 Note: Complete statistical information on Caisses popu-  
30 laires were attached to the brief submitted by La





1 Fédération de Québec des Unions régionales des  
2 Caisses populaires Desjardins to the Royal Commiss-  
3 ion on Banking and Finance. That documentation  
4 should be available to your Commission, if necessary.  
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2 COMMISSION ROYALE D'ENQUÊTE

3 sur la

4 FISCALITÉ

5  
6  
7  
8 MÉMOIRE

9 soumis par

10 LA FÉDÉRATION DE QUÉBEC DES UNIONS RÉGIONALES

11 des

12 CAISSES POPULAIRES DESJARDINS

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17  
18 Mars 1963

(english on reverse side)







MEMOIRE

présenté par

La Fédération de Québec des Unions régionales  
des Caisses populaires Desjardins  
à

La Commission Royale d'Enquête sur la Fiscalité

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\* \* \* \* \*





1 - PRINCIPES GENERAUX

3 Introduction

1.  
Les classes laborieuses ont pris elles-mêmes l'initiative, au début de notre siècle, d'organiser leur propre système d'épargne et de crédit. L'usure dont elles étaient les victimes de la part des petits prêteurs capitalistes, leur a permis de se rendre compte qu'elles devaient compter sur elles-mêmes pour bâtir un système de crédit qui leur permettrait de satisfaire leurs besoins économiques essentiels et de participer au progrès économique du pays.

2.  
Les Caisses populaires Desjardins, en contribuant au bien-être des familles et à la prospérité économique nationale, aident l'Etat à s'acquitter de ses obligations en agrandissant le domaine fiscal tout en soulageant l'Etat de dépenses considérables qu'il devrait faire pour aider les classes populaires à subvenir à leurs besoins essentiels si elles n'assumaient pas la responsabilité d'organiser et d'opérer elles-mêmes les entreprises par lesquelles elles les satisfont tout en participant activement au développement de l'économie nationale.

3.  
C'est le but du présent mémoire de rappeler respectueusement à votre Commission sur la fiscalité au Canada que les Caisses populaires Desjardins contribuent aux revenus fiscaux de l'Etat canadien en agrandissant le champ de la fiscalité grâce au progrès économique qu'elles provoquent et qu'elles allègent les charges fiscales de l'Etat par les fonctions économiques qu'elles remplissent efficacement sans avoir recours à son assistance financière.





1 4. Les Caisses populaires Desjardins sont des  
2 coopératives d'épargne et de prêts, c'est-à-dire des  
3 associations de petits épargnants qui, à même leurs  
4 épargnes mises en commun, se font mutuellement des prêts  
5 pour organiser et opérer les entreprises par lesquelles  
6 ils satisfont leurs besoins économiques essentiels.

7 5. Les "économiquement faibles" ont recours à  
8 la coopération pour se créer une source de crédit basée sur  
9 leur confiance mutuelle et alimentée par leurs petites  
10 épargnes. Ils font la capitalisation de leur honnêteté,  
11 de leur esprit d'initiative, de leur amour du travail et  
12 de leur solidarité mutuelle pour se constituer une source  
13 de capital qui leur permet d'organiser et d'opérer de  
14 petites entreprises économiques et d'améliorer leur niveau  
15 de vie économique et sociale. "Ni la banque, ni la  
16 compagnie de prêt, a déclaré le fondateur des Caisses  
17 populaires dans son témoignage au Comité de la Chambre  
18 des Communes chargé de l'étude du projet de loi concernant  
19 les sociétés coopératives et industrielles en 1907, ne  
20 prétendent répondre aux besoins de crédit des pauvres  
21 parce que ceux-ci n'ont rien d'autre à gager que leur  
22 honnêteté et leur bonne volonté à rembourser."

23 6. C'est la réputation d'honnêteté de nos petites  
24 gens et "leur bonne volonté a rembourser" qui ont rendu  
25 possible l'établissement et le fonctionnement chez nous  
26 de ces coopératives décentralisées d'épargne et de prêts,  
27 les Caisses populaires "où, selon les termes d'Alphonse  
28 Desjardins dans sa brochure sur la Caisse populaire, (1911),  
29 l'ouvrier et le cultivateur honnêtes, laborieux, sobres,  
30 économes, peuvent se procurer les fonds dont ils ont





1 besoin pour alimenter leurs activités, se créer un foyer,  
2 se libérer d'une dette onéreuse, faire des achats néces-  
3 saires au comptant."

4 7. Sous la direction éclairée d'Alphonse Desjardins,  
5 rapporteur officiel des débats parlementaires à Ottawa,  
6 les classes laborieuses, conscientes que l'usure dont  
7 elles étaient les victimes de la part des petits prêteurs  
8 capitalistes était rendue possible et facilitée par l'ab-  
9 sence d'un système de crédit adapté à leurs besoins, se  
10 mirent à la tâche de bâtir elles-mêmes leurs institutions  
11 d'épargne et de prêts; et elles les édifièrent selon la  
12 formule coopérative où les propriétaires sont à la fois les  
13 usagers et les bénéficiaires des institutions d'épargne  
14 et de prêts et où le capital qui provient des épargnes  
15 populaires y joue le rôle d'un bon serviteur qui reçoit une  
16 rémunération limitée. Ces institutions d'épargne et de  
17 prêts ainsi organisées par et pour le peuple sont les  
18 Caisses populaires, dites Desjardins pour commémorer la  
19 mémoire de leur fondateur, Alphonse Desjardins. Par elles,  
20 les populaires apprennent à régler elles-mêmes leurs  
21 problèmes économiques, ne comptant plus sur les autres pour  
22 le faire. "La voie à suivre, a écrit Alphonse Desjardins  
23 dans sa brochure sur la Caisse populaire, pour le peuple  
24 désireux de faire ses propres affaires, sans la tutelle  
25 onéreuse de personne, est de s'associer et de prendre les  
26 avantages comme les responsabilités qui résultent d'un  
27 contrôle entier et d'une accession à la vie économique  
28 complète, corollaire indispensable de l'émancipation civile  
29 et politique dont nous jouissons. Après tout - et c'est le  
30 fond même de ce régime - c'est le peuple lui-même qui fait







1 ses propres affaires économiques. Au lieu d'être  
2 aujourd'hui gouvernés, comme les peuples l'étaient il y  
3 a deux ou trois siècles, par un roi autocrate qui se  
4 donnait comme un envoyé du ciel, nous nous gouvernons  
5 nous-mêmes et nous réglons tout ce qui touche au monde  
6 politique par l'entremise de nos députés librement élus.  
7 Pourquoi n'aurions-nous pas un régime aussi libre dans  
8 le monde économique? Notre monde des affaires est loin  
9 d'être une pure démocratie. Notre régime politique est  
10 essentiellement démocratique, mais lorsque nous abor-  
11 dons notre régime financier ou économique, vous y voyez  
12 régner une pure aristocratie ou ploutocratie."

13 8. Outre de former des citoyens imbus du sens de  
14 la solidarité économique et de l'entraide mutuelle, les  
15 coopératives d'épargne et de prêts développent chez  
16 eux le sens de la prévoyance, de l'économie et de l'épargne,  
17 et elles organisent le crédit du peuple sur une base dé-  
18 centralisée, efficace et peu coûteuse. C'est bien là la  
19 première étape qu'un peuple doit franchir pour organiser  
20 convenablement son économie et s'engager sur la voie de  
21 la prospérité économique et du progrès social.

22 9. Les Caisses populaires s'emploient à cette tâche  
23 de formation économique des classes laborieuses. Elles  
24 sont un facteur dynamique de progrès économique des gens  
25 du peuple. Dans son mémoire sur l'organisation de l'agri-  
26 culture dans la province de Québec, Alphonse Desjardins  
27 exprima sa conviction à ce propos en ces termes: "Nous  
28 n'hésitons pas à dire que nous voudrions voir la Caisse  
29 populaire, c'est-à-dire l'association des modestes capitaux  
30 locaux, être le centre d'activité, le foyer générateur





1 de ce mouvement (...) Or, l'un des moyens les plus  
2 efficaces de succès est de s'assurer l'aide puissante  
3 du crédit par l'organisation d'une caisse qui servira  
4 de réservoir à l'épargne locale, laquelle se déversera  
5 ensuite en prêts ou avances fécondantes sur les  
6 initiatives individuelles ou collectives que ce mouvement  
7 rénovateur aura provoquées."

8 10. Le crédit populaire, dans notre économie  
9 d'échange qui requiert beaucoup de capital, doit s'aliment-  
10 er de l'épargne populaire; il doit même favoriser la  
11 pratique de l'épargne populaire, puisque c'est  
12 cette pratique de l'épargne qui assure au peuple l'apprent-  
13 issage du crédit. Le crédit, pour être à la fois populaire  
14 et efficace, doit, dans notre économie moderne, prendre  
15 sa source d'approvisionnement chez le peuple; il doit  
16 être contrôlé par les intéressés eux-mêmes qui en assurent  
17 la bonne administration et la distribution judicieuse et  
18 peu coûteuse, afin qu'il soit vraiment populaire dans  
19 ses objectifs, qui sont de satisfaire efficacement les  
20 besoins de crédit des classes populaires.

21 11. L'expérience des Caisses de crédit mutuel de  
22 l'Europe avait persuadé Alphonse Desjardins que la  
23 coopération devait apporter les principes de base d'un  
24 système efficace de crédit populaire parce que la coopér-  
25 ation, outre de faire appel à l'effort personnel, à  
26 l'initiative individuelle, à l'esprit de prévoyance de  
27 ceux qui font usage du crédit, multiplie leurs forces  
28 individuelles en les coordonnant et leur permet de régler  
29 eux-mêmes leurs problèmes communs.

30 12. C'est pourquoi la coopérative de crédit populaire





est d'abord une institution d'épargne, c'est-à-dire une institution qui enseigne aux classes populaires le sens de la prévoyance, de l'économie, de la petite épargne, de façon à ce que les classes populaires en viennent à alimenter elles-mêmes, par leurs propres épargnes, leurs propres institutions de crédit et à édifier et à administrer elles-mêmes les institutions nécessaires à la satisfaction de leurs besoins économiques essentiels, et deviennent ainsi un facteur important de progrès économique de toute la nation et ne soient pas à charge de l'Etat. Est-il possible d'organiser convenablement l'économie d'un peuple sans d'abord développer chez lui le sens de la prévoyance et de la saine économie et sans recueillir et bien utiliser les petites épargnes qui résultent de la pratique des vertus de prévoyance et d'économie chez les classes populaires. "Pour ce qui regarde l'épargne, écrit Monsieur Desjardins dans sa lettre à Charles Rayneri, directeur du Centre fédératif du crédit populaire de France, le 18 octobre 1900, je désire que nos sociétés soient de véritables écoles enseignant la pratique de cette vertu sociale, et pour cela nous recevrons des dépôts d'un montant même de cinq sous."

13. Au début du siècle, le peuple possédait peu d'argent et il avait peu l'habitude de l'épargne. Dans son témoignage devant le comité spécial de la Chambre des Communes chargé de faire enquête en marge du projet de loi concernant les sociétés coopératives et industrielles (1907), Alphonse Desjardins déclara à ce propos: "L'homme du peuple ne songe point à faire la moindre épargne parce





1 que, suivant lui, ça ne vaut pas le peine de mettre des  
2 sous de côté." Et dans son mémoire sur l'organisation  
3 de l'agriculture de la province de Québec, il parle du  
4 "mépris de l'épargne" et du "dédain affligeant pour la  
5 petite économie" chez le peuple comme d'un "vice national"  
6 source de misère et de souffrances tant individuelles que  
7 collectives et engendrant un mal général qui tient nos  
8 populations dans une déplorable dépendance économique."  
9 14. L'éducation à l'économie et à l'épargne, voilà  
10 la première tâche qu'Alphonse Desjardins confia à la  
11 Caisse populaire. Elle doit recueillir toutes les  
12 épargnes, les canaliser et en faire une puissance  
13 économique.

14 15 Bien que l'homme soit intelligent et capable de  
15 prévoir, l'épargne n'en est pas pour autant une qualité  
16 naturelle de l'homme; de sa nature, l'homme n'est pas  
17 enclin à épargner. C'est pourquoi les citoyens ont  
18 besoin de protection, car ils sont plus enclins à  
19 dépenser leur argent qu'à vouloir le garder. Le Caisse  
20 populaire apporte cette sauvegarde. Elle sollicite  
21 l'épargne, en rappelle sans cesse la nécessité, facilite  
22 les dépôts d'épargne chez elle, est d'accès commode à  
23 tous. Toutes les petites épargnes doivent être recueil-  
24 lies, sinon elles sont en grand péril d'être gaspillées.  
25 Les Caisses populaires s'efforcent d'opérer le sauvetage  
26 des petites épargnes, fruit du travail. Outre la  
27 facilité qu'elles accordent aux dépôts d'épargne, les  
28 Caisses populaires Desjardins assurent la sécurité et  
29 favorisent le bon emploi des épargnes. C'est une règle  
30 d'or qu'elles ont à coeur d'observer pour bien remplir









1 leur première fonction de coopératives d'épargne.

2 16. Voici à ce propos toute la pensée du fondateur  
3 des Caisses populaires, telle qu'il l'a exprimée dans une  
4 conférence prononcée au Congrès de la Jeunesse à Québec  
5 en 1908 sur les Caisses populaires. "Mais, objectera-  
6 t-on: Pourquoi ces caisses d'épargne, n'avons-nous pas  
7 de banques qui, grâce à leurs succursales, vont partout re-  
8 cueillir l'épargne? D'abord, les banques ne sont pas des  
9 créations ayant pour objet de faire du bien aux masses  
10 populaires ou de solutionner la question sociale sur le  
11 terrain économique. Elles n'y ont jamais songé et par  
12 bonheur, car elles ne sont nullement outillées pour une  
13 pareille mission. Elles failliraient donc sûrement à la  
14 tâche, tout en ne réussissant pas aussi bien à enrichir  
15 leurs actionnaires, but unique de leur fondation.  
16 Laissons à chaque organe la fin qui lui est propre et  
17 pour laquelle il est fiat, et les choses n'en iront que  
18 mieux.

19 17. En second lieu, est-on bien fondé à prétendre  
20 que nos banques vont partout. Sans nous arrêter au  
21 péril économique qui réside dans ce drainage perpétuel de  
22 l'épargne locale au seul profit des grands centres, et là  
23 au seul avantage d'une certaine clientèle - n'est-il pas  
24 vrai que, malgré la multiplicité inquiétante, surtout  
25 depuis quelques années, de ces succursales - la grande  
26 majorité de nos paroisses sont privées de ces réservoirs  
27 d'épargne. Et la raison en est bien simple, c'est que  
28 la banque est une compagnie inventée pour l'unique  
29 avantage de ses actionnaires, non une création sociale  
30 cherchant d'abord à faire du bien sans compter, ni sans





1 espoir de bénéfices fort plantureux. Ce qu'elle veut,  
2 ce sont des profits pour grossir le dividende de fin  
3 d'année. Voilà la vérité toute nue. Or, il y a une foule  
4 de paroisses ou l'entretien d'une agence ou succursale  
5 serait une source de perte, non de gain. On s'abstient  
6 donc. Faut-il s'en étonner ou le déplorer? Loin de le re-  
7 gretter, on a plutôt raison de s'en réjouir; si cette  
8 abstention doit avoir pour effet de réveiller les initiat-  
9 ives locales et les amener à créer le réservoir beaucoup  
10 plus bienfaisant, beaucoup plus  
11 conforme aux besoins de nos paroisses sous forme de  
12 Caisses populaires.

13 18. Enfin, les banques ne font pas le crédit aux  
14 pauvres. Elles prêtent à une clientèle qui se recrute  
15 principalement dans les grandes industries et le  
16 commerce (...). Sans nous préoccuper outre mesure du  
17 sort des banques, sachant fort bien qu'elles sont d'humeur  
18 et en état de se protéger elles-mêmes, nous pouvons affir-  
19 mer que la multiplication des Caisses populaires leur  
20 serait très avantageuse en ce qu'elle grossirait le flot  
21 des épargnes, et par là même, la richesse glocale du  
22 pays, ce qui accroîtrait l'activité économique, d'où  
23 il résulterait un profit incontestable pour les grandes  
24 banques. C'est le phénomène qui s'est produit ailleurs.  
25 Pourquoi n'en serait-il pas de même ici? Depuis quand  
26 les écoles élémentaires ont-elles fait du tort aux  
27 universités? Ne faut-il pas savoir lire et écrire pour  
28 fréquenter ces maisons d'enseignement supérieur? Or, la  
29 Caisse populaire est l'école élémentaire économique.





1 Quoi que l'on fasse, la grande banque ne recueillera  
2 jamais le sou, cela coûte trop, grâce à son organisation  
3 luxueuse et à son personnel largement payé - tandis que  
4 la Caisse local le fera aisément par devoir d'abord,  
5 et par suite de son mode même de fonctionnement basé sur  
6 le dévouement social."

7 19. Les buts que les Caisses populaires poursuivent  
8 par leur mode de distribution du crédit et d'amortisse-  
9 ment de leurs prêts au moyen de petites remises régulières  
10 ne diffèrent pas de ceux qu'elles veulent atteindre  
11 comme coopératives d'épargne. Le service de crédit de la  
12 Caisse populaire Desjardins s'inspire des mêmes principes  
13 et poursuit le même but que le service d'épargne: l'amé-  
14 lioration des conditions économiques et sociales des  
15 sociétaires, et c'est toujours, d'une part comme de  
16 l'autre par la pratique de la prévoyance, de l'économie  
17 et de l'épargne. Les emprunteurs sont incités par cette  
18 exigence des petites remises sur leurs emprunts à  
19 pratiquer la prévoyance et l'économie de façon à réaliser  
20 des épargnes qui leur permettront de rembourser petit à  
21 petit leurs emprunts et d'améliorer leur situation écon-  
22 omique et sociale. Voilà pourquoi les commissaires de  
23 crédit doivent connaître les buts des emprunts et s'assur-  
24 er que les prêts seront vraiment utiles ou avantageux aux  
25 emprunteurs. Voilà pourquoi également la commission de  
26 crédit exige des emprunteurs qu'ils s'engagent à faire des  
27 petites remises régulières sur leurs emprunts, afin qu'ils  
28 soient incités à mettre de l'ordre dans leurs affaires,  
29 à pratiquer la prévoyance, la tempérance de vie et  
30 l'économie, à faire des efforts soutenus pour bien





1 organiser leur entreprise et leur train de vie de façon  
2 à réaliser les épargnes qui leur permettent d'améliorer  
3 leur situation économique et sociale. Voilà le travail  
4 d'éducation économique et sociale que font les  
5 commissaires de crédit en s'acquittant de leur rôle  
6 conformément à l'esprit du fondateur qui a voulu que sa  
7 Caisse populaire soit dans chacune de nos parcisses une  
8 école pratique d'éducation économique et sociale des  
9 citoyens.

10 20. Le bon emploi du crédit nécessite chez les  
11 emprunteurs des qualités morales et des aptitudes  
12 professionnelles, car les sociétaires, pour emprunter  
13 de leur Caisse populaire, doivent réunir des qualités qui  
14 les recommandent à leur Caisse populaire. Ils doivent  
15 être sociétaires, c'est-à-dire, "honnêtes, bons payeurs,  
16 sobres et bons travailleurs" (article 7 des statuts).

17 Les commissaires de crédit, en examinant la demande  
18 d'emprunt, considèrent d'abord les garanties morales,  
19 puis la solvabilité de l'emprunteur. L'honnêteté, c'est  
20 la plus grande richesse. Elle passe en premier lieu.  
21 Pour prendre l'expression de Luzzati, fondateur des  
22 banques populaires coopératives en Italie, les Caisses  
23 populaires font "la capitalisation de l'honnêteté". C'est  
24 la base même de leur politique de crédit. Les Caisses  
25 populaires tiennent compte, en premier lieu, de la  
26 valeur morale et des aptitudes ou qualités profession-  
27 nelles de leurs sociétaires qui veulent emprunter et  
28 elles vérifient ensuite leur situation financière. Elles  
29 s'assurent de l'utilisation fructueuse des emprunts  
30 et de leur remoursement selon les conditions offertes









1 par les emprunteurs et jugées acceptables par leurs  
2 commissaires de crédit.

3 21. Autant d'exigences qui démontrent à l'évidence  
4 que les Caisses populaires sont des écoles de formation  
5 économique et sociale des classes populaires et qu'elles  
6 ont pour principale préoccupation d'aider les gens  
7 d'humbles conditions économiques à s'aider mutuellement à  
8 améliorer leur situation économique et à devenir un  
9 facteur qui compte dans le développement de l'économie  
10 de la nation canadienne.

11  
12 Les Caisses populaires font l'éducation économique  
13 des foyers

14 22. Les Caisses populaires Desjardins, avons-nous  
15 rappelé, sont des écoles paroissiales de prévoyance,  
16 d'économie, d'épargne et d'apprentissage du bon crédit.

17 23. Elles cherchent à protéger les épargnes qui leur  
18 sont confiées et voient à ce qu'elles soient bien  
19 utilisées. Elles ont aussi à coeur d'amener les familles  
20 des sociétaires à se bien administrer. Si les familles  
21 d'une même paroisse se groupent au sein d'une Caisse  
22 populaire, c'est pour s'entraider mutuellement. Or cette  
23 entraide ne saurait se limiter à la conservation et à  
24 la bonne utilisation de leurs épargnes; elle embrasse  
25 aussi l'éducation administrative des foyers. Il suffit  
26 pour s'en convaincre de réfléchir sur les buts que les  
27 Caisses populaires pour suivent. L'épargne ne se  
28 développe pas chez nous à un rythme suffisant pour  
29 satisfaire les besoins d'investissement de notre jeune  
30 pays en pleine expansion. Au surplus, en dépit ou à





1 cause des salaires et des revenus plus élevés dont  
2 jouissent les Canadiens, les dettes à la consommation ont  
3 pris depuis la fin du dernier conflit mondial, des propor-  
4 tions considérables, voire même inquiétantes. Les conditions  
5 de vie, les aspirations et les besoins de nos familles ont  
6 subi de profondes transformations avec l'industrialisation  
7 et l'urbanisation de notre société.

8 24. Conscientes de leurs responsabilités vis-à-vis  
9 nos classes populaires, la Fédération de Québec des Unions  
10 régionales des Caisses populaires Desjardins et l'Assur-  
11 ance-Vie Desjardins, désireuses de se bien renseigner sur  
12 les conditions de vie actuelle de nos foyers et de leurs  
13 besoins essentiels, ont demandé en 1957 au Centre de  
14 Recherches économiques et sociales de l'Université Laval,  
15 Québec, d'entreprendre une enquête scientifique sur  
16 les conditions de vie, les aspirations et les besoins  
17 de nos familles salariées dans le Québec. Une telle  
18 enquête a fait la lumière sur les facteurs qui condition-  
19 nent le comportement des foyers vis-à-vis l'épargne et  
20 l'usage du crédit devant leurs besoins de consommation.  
21 Elle a défini leurs conditions de vie, leurs aspirations  
22 et leurs besoins, elle a apporté des données sûres aux  
23 dirigeants du mouvement des Caisses populaires qui sont  
24 à mettre à point des politiques efficaces concernant  
25 l'épargne et le crédit, et à préciser les méthodes les  
26 plus aptes à amener les familles à se bien administrer,  
27 à faire un meilleur usage du crédit et à se créer des  
28 réserves pour l'avenir.

29

30





1 2) all people it intends to serve are equally free to  
2 be or not to be members of the Caisse populaire.

3 27. Caisses populaires are associations of people,  
4 they are not associations of capital funds or shareholding  
5 companies as are the banks or finance companies. In a  
6 Caisse populaire the voting power is attached to the  
7 person; in the bank the voting power is attached to the  
8 shares, the money. Members of a Caisse populaire take  
9 their decisions at annual meetings or special meeting on  
10 the principle of one member, one vote, and not on the  
11 basis in use in capitalistic societies where each share-  
12 holder has as many votes as he has shares. Shareholders  
13 of a bank based on the capitalistic principle who own  
14 or through proxies control more than 50% of the shares  
15 can effectively control the organization, take adminis-  
16 trative decisions and determine the amount and the way  
17 profits are distributed to shareholders.

18 28. Members of a Caisse populaire are, at the same  
19 time the owners, users, and beneficiaries of their  
20 organization. They entrust it with the administration  
21 of their savings, borrow from it when in need of money.  
22 They choose, among themselves and in accordance with the  
23 social rule of one member, one vote, the members of the  
24 three boards or committees which administer their Caisse  
25 populaire, make them loans and supervise its operations.  
26 The mutual relations among the members are therefore  
27 developed and based on social equality which guarantees  
28 the co-operative principle: One member, one vote.





1 Equitable distribution of the operating surplus to the  
2 members and limitation of interest on their capital

3  
4 29. The Caisse populaire Desjardins is the inte-  
5 gration of two forms of co-operatives: the savings co-  
6 operative and the credit co-operative.

7 30. It is therefore important to keep in mind this  
8 double characteristic of the Caisse populaire in order  
9 to understand how the co-operative principle of distribu-  
10 ting surplus to members is applied. It is done in  
11 proportion of the business done by the members with their  
12 Caisse popular.

13 31. The rule of equity which regulates the economic  
14 relations of the Caisse populaire with its members  
15 requires the application of two co-operative principles  
16 whereby surpluses of operations are paid back to the  
17 members in relation to their volume of transactions with  
18 their Caisse populaire: 1) a limitation of the interest  
19 paid on capital; 2) a return of the surpluses to the  
20 members in proportion to the transactions they have made  
21 with their Caisse populaire and not in accordance with  
22 capital invested in their Caisse populaire.

23 32. The Caisse populaire pays a limited interest on  
24 its share capital (capital social). This interest is  
25 slightly higher than that paid on savings, because the  
26 members' financial responsibility is in relation to their  
27 social shares; in this way social capital involves a  
28 certain risk which does not exist as far as savings are  
29 concerned. It must also be noted that the member has  
30 to pay an "entrance fee" on each share and that the







sociétaires exige l'application des deux principes  
coopératifs en vertu desquels les excédents nets d'opé-  
rations ou trop-perçus doivent être remis aux sociétaires  
en proportion de leurs transactions avec leur Caisse  
populaire: 1) la limitation de l'intérêt sur le  
capital; 2) la remise des excédents net d'opérations  
aux sociétaires au prorata des opérations qu'ils ont  
faites avec leur Caisse populaire, et non pas en propor-  
tion de leur capital payé à leur Caisse populaire.

32. La Caisse populaire paie un intérêt limité sur  
le capital social (les parts sociales). L'intérêt sur les  
parts sociales est légèrement plus élevé l'intérêt sur  
l'épargne, précisément parce que la responsabilité  
financière des sociétaires est légalement attachée à  
leurs parts sociales; le capital social encourt de ce  
fait un certain risque qui n'affecte pas l'épargne. A  
noter aussi que le sociétaire paie une taxe d'entrée sur  
chaque part sociale qu'il prend et que cette part sociale,  
quel que soit le degré de développement et d'efficacité  
administrative de la Caisse populaire, ne varie jamais  
quant à sa valeur. Cette taxe d'entrée est un contrib-  
ution directe au fonds de réserve de la Caisse populaire.  
Le sociétaire n'en sera jamais remboursé. Aussi, la  
Caisse populaire paie-t-elle, pour ces diverses raisons,  
au sociétaire sur son capital social une compensation sous  
la forme d'un intérêt légèrement plus élevé. Cet intérêt  
sur les parts sociales est appelé "boni" pour le  
distinguer de l'intérêt sur l'épargne. Il n'est pas le  
dividende qui, dans la banque, représente le partage des  
profits entre les actions. Car si le boni était la même





1 chose que le dividende, il suivrait, comme le dividende,  
2 la courbe des excédents nets; plus les excédents nets  
3 seraient considérables plus le boni serait élevé. Mais  
4 il n'est pas ainsi: Les Caisses populaires Desjardins  
5 limitent l'intérêt sur le capital social, le traitent  
6 comme un bon serviteur, elles lui donnent un salaire  
7 raisonnable.

8 33. La Caisse populaire paie à ses sociétaires-  
9 déposants un intérêt limité, celui qui est généralement  
10 accordé dans les autres institutions d'épargne, elle  
11 charge à ses sociétaires - emprunteurs un intérêt un  
12 peu plus élevé. La marge excédentaire de l'intérêt  
13 obtenu de ses prêts et placements sur l'intérêt payé sur  
14 l'épargne est établie de façon à payer les frais  
15 d'administration, à pourvoir à des réserves jugées  
16 nécessaires pour consolider sa position financière et  
17 compenser les pertes éventuelles, et à payer un intérêt  
18 raisonnable sur les parts sociales des sociétaires.

19  
20 Opérations aux taux courants du marché

21 34. Cette méthode coopérative concerne également la  
22 concurrence Les sociétaires n'ont pas intérêt à entrer  
23 en guerre contre les autres institutions financières,  
24 par des taux plus élevés ou plus bas que ceux du marché.

25 35. D'après les chiffres publiés à la page 131 de  
26 notre mémoire à la Commission Royale d'Enquête sur le  
27 Système Bancaire et Financier, 1105 Caisses populaires  
28 sur un total de 1212, au 31 décembre 1961, ont payé un  
29 boni ou intérêt sur le capital de 3% à 5%. Le mode et la  
30 médiane étaient de 4%, la moyenne arithmétique, 4.06% et





la moyenne pondérée par le capital social au 31 décembre 1961, de 4.90%.

36. A la page 126 du même mémoire, on constate que 1149 Caisses populaires sur 1212, au 31 décembre 1961, ont payé de 2% à 3.49% d'intérêt sur l'épargne. 635 Caisses ont payé de 3% à 3.49%; donc la plupart tombaient dans la catégorie du 3%, taux payé par les banques. Le mode et la médiane étaient 3%, la moyenne arithmétique 2.72% et la moyenne pondérée par l'épargne, au 31 décembre 1961, 2.96%.

37. Pour ce qui est des taux d'intérêt sur les prêts, d'après les chiffres cités à la page 119 du mémoire à la Commission Royale d'Enquête sur le Système Bancaire et Financier, 1126 Caisses populaires sur 1212 chargeaient, au 31 décembre 1961, de 6% à 7.49% d'intérêt pour leurs prêts personnels sur reconnaissance de dette. Le mode et la médiane étaient de 7%, la moyenne arithmétique 6.63% et la moyenne pondérée par les prêts en cours, au 31 décembre 1961, de 6.75%. 812 Caisses populaires sur 1212 avaient un taux d'intérêt variant de 6% à 6.99% sur prêts hypothécaires. Le mode et la médiane étaient 6%, la moyenne arithmétique 5.57% et la moyenne pondérée par les prêts en cours, au 31 décembre 1961 de 6.32%.

38. L'intérêt sur les prêts est toujours calculé sur le solde dû, les taux d'intérêt mentionnés ici sont donc des taux réels. Une Caisse populaire ne charge jamais l'intérêt sur le montant original et pour toute la durée du prêt, comme le font certaines autres institutions, ce qui augmente considérablement le taux réel chargé. De plus, les Caisses populaires ne chargent





1 jamais de frais d'administration sur les prêts ou un  
2 minimum d'intérêt, même lorsque l'intérêt charge représ-  
3 ente une somme minime de \$0.10 ou \$0.20.

4 39. Les succès des Caisses populaires s'expliquent  
5 en grande partie comme suit:

6 a) Décentralisation -

7 - Chaque Caisse populaire est autonome. Elle  
8 recueille l'épargne des sociétaires de la paroisse  
9 et la prête aux sociétaires de la paroisse. L'argent  
10 local est donc utilisé localement pour accroître le  
11 bien-être et la prospérité de la localité.

12 b) Service -

13 - Le fait, pour le sociétaire, d'être un des prop-  
14 riétaires de l'entreprise et d'être servi par qual-  
15 qu'un de sa paroisse, bien au courant de ses  
16 problèmes, et la qualité du service, tout cela attire  
17 davantage le sociétaire et l'amène à confier son  
18 épargne et à emprunter de préférence à sa propre  
19 Caisse.

20 40. Les Caisses populaires ne font pas le commerce  
21 de l'argent; elles n'enrichissent pas un petit nombre  
22 de sociétaires avec les épargnes du public. Car seuls les  
23 sociétaires peuvent déposer leurs épargnes à leur Caisse  
24 populaire, seuls les sociétaires peuvent y emprunter. Ils  
25 mettent leurs épargnes en commun pour s'en servir, et non  
26 pas pour qu'un petit groupe d'entre eux fasse des profits  
27 avec l'argent des autres. Les Caisses populaires n'emprunt-  
28 ent pas d'argent et ne reçoivent pas de dépôts d'épargne  
29 de personnes qui ne sont pas sociétaires en vue de prêter  
30 cet argent pour faire des profits.









41. Les banques, par contre, acceptent les dépôts d'argent de tous et prêtent à ceux auxquels elles estiment profitable de faire des prêts; elles font le commerce de l'argent; elles reçoivent les dépôts d'épargne du public et les prêtent à un taux d'intérêt plus élevé en vue d'encaisser des profits. Leurs actionnaires se les partagent en proportion du montant des actions qu'individuellement ils détiennent dans les banques. Comme le terme dividende l'indique bien, ils se divisent les profits d'après les actions qu'ils détiennent, sans compter que les actions prennent une plus-value qui augmente avec la rentabilité de l'entreprise au profit de l'actionnaire; car en plus de recevoir un dividende, l'actionnaire encaisse éventuellement un gain de capital.

42. Les Caisses populaires ne peuvent évidemment pas savoir à l'avance de façon exacte ni le montant total de leurs dépenses d'administration, ni le montant précis des intérêts à être payés sur leur capital social et leur épargne, qui sont nécessairement variables. Elles exigent un intérêt sur les prêts qui excédera selon toute prévision les dépenses et les intérêts totaux à payer et qui leur permettra aussi de pourvoir aux réserves jugées nécessaires à leur fonctionnement normal. Si, en fin d'année d'exercice, il y a un trop-perçu ou un excédent net après paiement d'un boni raisonnable sur les parts sociales, la Caisse populaire remettra aux emprunteurs cette part d'intérêt qu'elle a exigé en trop d'eux. Cette remise ou ristourne des excédents nets ramène les opérations des prêts au prix coûtant.

43. Cette ristourne varie nécessairement avec les





1 intérêts que les emprunteurs ont payés en trop sur les  
2 emprunts plus ou moins considérables qu'ils ont effectués  
3 à la Caisse populaire. Plus un emprunt est considérable,  
4 plus élevé est le montant d'intérêt payé, plus forte est  
5 la ristourne à l'emprunteur. C'est la remise du trop-  
6 perçu selon la règle d'équité ou de proportionnalité  
7 qui remet à chacun ce qui lui est dû, c'est la distrib-  
8 ution des excédents nets en proportion des transactions  
9 faites par les emprunteurs avec leur Caisse populaire.

10 44. Traitant de la distribution des excédents nets  
11 de la Caisse populaire, Monsieur Desjardins écrit dans sa  
12 brochure sur la Caisse populaire: "Or, les Caisses ont  
13 adopté pour règle absolue de les traiter (les épargnistes  
14 et les emprunteurs) tous deux avec une justice égale."  
15 Chaque fois donc que le boni est accru, chaque fois aussi les  
16 conditions faites aux emprunteurs sont bonifiées. C'est  
17 l'application du régime coopérateur sur lequel reposent ces  
18 sociétés d'épargne et de crédit. C'est là, il est vrai, un  
19 principe nouveau en une telle matière, mais ce principe se  
20 recommande parce qu'il est fondé sur l'équité et la soli-  
21 darité bien comprises. Il ne faut pas oublier, non plus,  
22 que même les emprunteurs profitent des bonis accrus,  
23 puisqu'ils sont sociétaires, et, comme tels, propriétaires  
24 de parts joissant de ces bonis. Il s'ensuit donc que tous  
25 seront doublement intéressés au maintien de la Caisse comme  
26 épargnistes et comme emprunteurs éventuels par les avan-  
27 tages qu'ils en retireront.

28 45. Monsieur Desjardins voulait que sa Caisse popu-  
29 laire rendît à chacun selon son dû en traitant avec la même  
30 justice les déposants et les emprunteurs; les premiers, en  
leur donnant un intérêt raisonnable,





1 les seconds, en leur réduisant par une ristourne l'intérêt  
2 sur leurs emprunts lorsqu'il y a excédent net d'opérations.

3 46. Les Caisses populaires Desjardins s'en tiennent  
4 à ce principe de justice pour tous leurs sociétaires.

5 L'article 46 de leurs statuts généraux formule cette  
6 règle de traiter avec une "justice égale" les sociétaires,  
7 dans la distribution de leur excédent de bénéfices en ces  
8 terms: "Toute augmentation du boni annuel est accompagnée  
9 d'une bonification correspondante dans les conditions  
10 des prêts faits aux sociétaires soit sous forme d'un  
11 abaissement du taux de l'intérêt prélevé, soit autrement."

12 47. Il peut arriver qu'en fin d'année il n'y ait  
13 pas d'excédents nets à distribuer, une fois l'intérêt  
14 sur l'épargne et les dépenses payés, les réserves  
15 constituées selon les règlements et un intérêt raisonnable  
16 versé sur les parts sociales. La Caisse populaire n'a  
17 pas, en une telle occurrence, à accorder une ristourne  
18 aux emprunteurs. Société sans but lucratif, elle a  
19 déjà réalisé ses opérations au prix coûtant.

20 Administration gratuite

21 48. La Caisse populaire est une institution pour  
22 des gens à revenus modestes. Ses frais d'opérations  
23 sont réduits à un strict minimum afin qu'elle coûte le  
24 moins cher possible à ses sociétaires qu'elle veut aider.  
25 Voilà pourquoi son fondateur a voulu que son administ-  
26 ration fût gratuite. Seuls le gérant et les employés  
27 peuvent recevoir une rémunération. Donc pas de jetons  
28 de présence, pas de commission aux dirigeants de la  
29 Caisse populaire; leurs services doivent être absolument  
30 gratuits. La loi des Syndicats coopératifs de Québec





1 régissant nos Caisses populaires stipule en effet (article  
2 23): "Les fonctions des membres du conseil d'administration,  
3 du conseil de surveillance et de la commission de crédit  
4 sont gratuites. Les services du gérant peuvent être  
5 rétribués."

6 49. L'administration à bon compte de la Caisse  
7 populaire est d'ailleurs facilitée par le fait que ses  
8 activités sont confinées à la paroisse où les gens se  
9 connaissent. "Toutes les activités productives ou avant-  
10 ageuses de la société étant essentiellement coopératives  
11 sont exclusivement restreintes aux sociétaires. Ces  
12 activités, d'ajouter la loi des Syndicates coopératifs  
13 de Québec (article 6) qui régit les Caisses populaires  
14 Desjardins du Québec, ne sont pas réputées constituer  
15 l'exploitation d'un commerce, d'un établissement financier  
16 ou d'un moyen de profit."

17 50. La Caisse populaire ne peut accepter comme  
18 sociétaires que les citoyens demeurant dans sa circonscrip-  
19 tion territoriale, qui est la paroisse, règle générale.  
20 Seuls les sociétaires peuvent participer aux opérations  
21 de leur Caisse populaire. Seuls les sociétaires peuvent  
22 y déposer leurs épargnes, seuls les sociétaires peuvent  
23 emprunter d'elles. Ce caractère coopératif des opérations  
24 des Caisses populaires Desjardins que sanctionne la  
25 loi a déjà été reconnu d'ailleurs par les autorités fé-  
26 dérales de l'impôt. Lors de l'amendement adopté à la loi  
27 de l'impôt, en 1931, qui exemptait les Caisses populaires  
28 de l'impôt ou de la taxe sur le revenu, l'Honorable  
29 Euler, alors Ministre du Revenu national, déclara:  
30 "Les membres de ces organisations (les Caisses populaires









Desjardins ou "Credit Unions") mettent leurs économies en commun dans un but unique, celui de se prêter mutuellement leurs économies. C'est entièrement une institution coopérative. En résulte cet avantage matériel qui est de réduire les frais d'opérations à un strict minimum. Les déposants et les emprunteurs en bénéficient; grâce à cette économie administrative, ils peuvent profiter de conditions d'intérêt plus favorables.

#### Constitution d'une réserve indivisible

51. Les Caisses populaires se constituent, à même partie de leurs excédents nets annuels, des réserves en vue de se protéger contre les pertes éventuelles dans leurs opérations et d'être en mesure de rendre plus de services à leurs sociétaires.

52. L'administration économique des Caisses populaires que permet leur mécanisme d'opérations simple et peu coûteux parce que décentralisé, fonctionnant au niveau des besoins des sociétaires, la gratuité des fonctions administratives, et la contribution directe des sociétaires qui paient sur chaque part sociale qu'ils souscrivent une taxe d'entrée qui est versée à la réserve, expliquent que les Caisses populaires aient pu se constituer peu à peu les réserves jugées nécessaires à la protection des épargnes de leurs sociétaires contre les pertes éventuelles et de leur confiance que favorise la sécurité administrative de leurs Caisses populaires. Ces réserves appartiennent en propre à la Caisse populaire et elles ne peuvent jamais être distribuées aux sociétaires. En cas de dissolution de la Caisse populaire, le





solde de son actif réalise (y compris évidemment les réserves) lui appartenant en propre est distribué ou affecté dans la circonscription territoriale de la Caisse populaire à une ou des oeuvres d'utilité générale désignée par le Lieutenant-gouverneur en conseil.

53. Une telle disposition légale écarte toute tentation chez les sociétaires de se partager les réserves de leur Caisse populaire et elle indique bien que la Caisse populaire ne recherche pas le profit, mais bien le service mutuel des sociétaires.

54. De telles réserves contribuent à développer une plus grande confiance chez les sociétaires-déposants envers leur Caisse populaire, parce qu'ils y voient un moyen de protéger leurs épargnes contre les pertes éventuelles et de se rendre plus de services et à meilleur compte.

55. Les Caisses populaires s'emploient à rendre à meilleur compte possible à leurs sociétaires certains services économiques dont ils ont besoin pour accéder à un certain bien-être et s'engager sur la voie de la prospérité économique et du progrès social. Aussi, les Caisses populaires Desjardins ont-elles été reconnues des oeuvres d'utilité publique et des institutions qu'il faudrait s'empresser de fonder et de développer dans l'intérêt de la nation si elles n'existaient pas.

## II - OEUVRES D'UTILITE PUBLIQUE

### Assistance financière de l'Etat

56. Le gouvernement fédéral n'a jamais rien





déboursé, sous quelque forme que ce soit, pour aider, surveiller ou contrôler les Caisses populaires, qui sont d'ailleurs sous la juridiction provinciale.

57. La même observation s'applique au gouvernement de Québec, sauf une subvention annuelle de \$90,000. qu'il verse à la Fédération de Québec des Unions régionales des Caisses populaires Desjardins, comme geste d'encouragement à donner un service financier à des populations qui en seraient privées autrement.

58. Les Caisse populaires ont pris elles-mêmes les moyens nécessaires pour organiser les cadres dont elles avaient besoin, et elles en assument le coût.

#### Contributions annuelles

59. Les Caisses populaires se cotisent donc annuellement pour permettre à leurs Unions régionales et à leur Fédération provinciale de s'organiser un secrétariat de de maintenir des services d'éducation, de propagande, d'inspection, d'analyse et d'approbation de placements, d'étude et de directives diverses. C'est ainsi que durant l'année sociale 1961-62, les Caisses populaires affiliées ont versé en contributions la somme de \$1,398,305.23 qui a été utilisée comme suit:

|                                                                                       |              |
|---------------------------------------------------------------------------------------|--------------|
| Fonds de sécurité                                                                     | \$122,297.00 |
| Unions régionales                                                                     | \$479,662.42 |
| Fédération de Québec<br>des Unions régionales<br>des Caisses populaires<br>Desjardins | \$796,345.81 |





1 Endroits privés de service bancaire

2 60. Malgré cette absence de contribution financière  
3 de l'Etat fédéral et la subvention minime de l'Etat du  
4 Québec, 668 des 1254 Caisses populaires affiliées étaient  
5 établies dans des localités non desservies par une  
6 succursale de banque. Dans ces 668 localités, il existait  
7 cependant 68 agences de banques et 129 sous-agences, c'est-  
8 à-dire des endroits organisés par les banques pour recue-  
9 illir les dépôts, mais sans donner en retour un service  
10 régulier de crédit dispensé à peu près exclusivement par  
11 les succursales. Il y avait donc 471 Caisses populaires  
12 dans des localités complètement privées de service bancaire.

13 61. Nombre de Caisses populaires ont été fondées  
14 et opèrent dans des localités éloignées des centres, par-  
15 fois même difficiles d'accès.

16 Exemple:

|                                                                                                    | Nombre<br>de<br>Caisses | Endroits où il<br>y a une succur-<br>sale de banque | Autres endroits<br>où il y a une<br>agence ou sous-<br>agence de banque |
|----------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------------------------|-------------------------------------------------------------------------|
| Union région-<br>ale de l'Ouest-<br>Québécois<br>(Abitibi-Est,<br>Abitibi-Ouest,<br>Rouyn-Noranda) | 38                      | 5                                                   | 2                                                                       |
| Union région-<br>ale de Gaspé                                                                      |                         |                                                     |                                                                         |
| 24 a) Iles de la<br>Madeleine                                                                      | 7                       | 0                                                   | 1                                                                       |
| 25 b) Gaspésie<br>(Gaspé-Nord,<br>26 Gaspé-Sud et<br>Bonaventure)                                  | 40                      | 7                                                   | 5                                                                       |
| 27 Côte Nord<br>(a l'est de<br>28 Sept-Iles, 500<br>29 milles au nord<br>de Québec)                | 8                       | 1                                                   | 0                                                                       |
| 30                                                                                                 | 93                      | 13                                                  | 8                                                                       |







62. Une Caisse populaire a été fondée même chez les Esquimaux de Povungnituk, au nord-est de la Baie d'Hudson.

63. L'organisation de Caisses populaires au bénéfice de ces populations négligées par les entreprises capitalistes qui n'y voient pas leur profit ou qui le trouvent en les exploitant est une contribution considérable qui allège le fardeau de l'Etat. Le mouvement des Caisses populaires lui-même s'est chargé des dépenses nécessaires pour donner à ces populations un moyen démocratique d'amasser l'épargne pour l'utiliser localement à des prêts destinés à des fins productives et avantageuses.

#### Promotion de l'épargne

64. Les Caisses populaires ont organisé et maintenu un service d'épargne efficace qui a permis d'accumuler depuis 1961 une somme considérable d'épargnes; le solde des épargnes dans les Caisses populaires affiliées excède maintenant \$750,000,000. Ce travail d'éducation et de promotion populaire s'est fait selon divers moyens que nous décrirons brièvement.

#### Caisses scolaires

65. Dès la fondation de la Caisse populaire de Lévis, Monsieur Desjardins avait organisé l'épargne du sou. Les Caisses populaires ont maintenu cette tradition avec d'heureux résultats. Au cours des années, le fonctionnement des Caisses scolaires s'est modifié, mais l'esprit qui l'anime reste le même: enseigner aux écoliers la nécessité de l'économie et de l'épargne.

66. 368,240 élèves avaient un montant de \$7,245,000.





1 en épargnes scolaires, au 31 décembre 1962. Environ  
2 650 Caisses populaires dans la province opèrent des  
3 Caisses scolaires dans près de 2,000 écoles.

4  
5 Education professionnelle et administrative

6 67. Un des buts de la Caisse populaire est de  
7 "répandre parmi ses membres la connaissance pratique des  
8 principes élémentaires de la science économique". En en-  
9 seignant aux sociétaires la pratique de l'épargne, on leur  
10 apprend en même temps à apprécier l'argent et à juger le  
11 bon usage que l'on peut en faire dans son intérêt et  
12 dans celui de la nation. De même, par sa politique  
13 de prêts populaires pour des fins productives et avant-  
14 ageuses, la Caisse populaire favorise le désendettement de  
15 ses sociétaires pour en faire éventuellement des éparg-  
16 ants. Mais, c'est surtout au niveau du conseil d'admini-  
17 stration, de la commission de crédit et du conseil de  
18 surveillance que cette formation est plus marquante.  
19 Chaque Caisse populaire est une coopérative distincte  
20 ayant son propre conseil d'administration, qui est composé  
21 d'au moins cinq (5) administrateurs, une commission de  
22 crédit et un conseil de surveillance de trois (3)  
23 membres chacun, ce qui fait au moins onze (11) dirigeants  
24 par Caisse populaire. Comme plusieurs conseils d'admini-  
25 stration ont 7, 9 et parfois un plus grand nombre  
26 d'administrateurs, on peut affirmer que près de 20,000  
27 dirigeants participent à la direction des Caisses pop-  
28 ulaires locales, des Unions et Caisses régionales et de  
29 la Fédération de Québec des Unions régionales des Caisses  
30 populaires Desjardins.





1 68. Ces personnes s'initient à l'administration  
2 de la Caisse, apprennent à interpréter des états finan-  
3 ciers et à apprécier les prêts et les placements,  
4 etc. Tous ces renseignements qu'ils puisent à la Caisse  
5 populaire leur servent ensuite personnellement dans l'exer-  
6 cice de leur métier, de leur profession ou de leur commerce,  
7 et ils peuvent en faire bénéficier leur milieu.

8  
9 Service d'éducation et de propagande

10 69. Les Unions régionales, sous la direction générale  
11 de la Fédération, maintiennent un service d'éducation et  
12 de propagande. En plus de préparer la fondation de nouvelles  
13 Caisses populaires, ce service assure l'éducation coopér-  
14 ative aux dirigeants et aux sociétaires. Parmi les  
15 moyens utilisés, mentionnons les comités d'éducation et  
16 de propagande, les conférences d'information et les cours  
17 de gestion, les rencontres de présidents et de gérants,  
18 les réunions diocésaines ou congrès régionaux, etc.

19 70. Le mouvement possède aussi un périodique: "La  
20 Revue Desjardins" à l'usage des dirigeants, le journal  
21 populaire "Ma Caisse", destiné aux sociétaires.

22 71. Des publications diverses, des feuillets, etc.  
23 sont également mis en circulation afin de mieux renseigner  
24 les sociétaires et la population en général sur les  
25 Caisses populaires et les services qu'elles rendent.

26  
27 Cours de perfectionnement et d'information

28 72. Les Caisses populaires ont organisé il y a  
29 quelques années des cours périodiques de perfectionnement  
30 et d'administration pour les dirigeants, les gérants et





1 les employés des cadres supérieurs du mouvement.

2 73. Les employés débutants, en groupes de 40 environ,  
3 sont aussi invités à suivre des cours de formation tech-  
4 nique. Les employés plus expérimentés, classés en diverses  
5 catégories, peuvent suivre les cours de spécialisation  
6 en vue d'une formation. Les gérants eux-mêmes, par petits  
7 groupes, ont l'occasion de rencontrer des économistes, des  
8 professeurs de diverses disciplines, durant une fin de  
9 semaine. Ils peuvent ainsi se pénétrer de la doctrine  
10 coopérative et bénéficier de l'expérience des autres. Ce  
11 travail préliminaire a préparé la voie à la création d'une  
12 véritable école de formation professionnelle.

13  
14 Institut Desjardins

15 74. Les cours donnés dans différents centres de la pro-  
16 vince ont pris une telle importance que le mouvement a  
17 décidé récemment de créer un centre coopératif de form-  
18 ation professionnelle sous le nom de l'Institut Desjardins.

19 75. L'expérience acquise par les professionnels de  
20 l'éducation des adultes et les recherches en pédagogie  
21 appliquée à l'entraînement du personnel des Caisses pop-  
22 ulaires ont amené le mouvement Desjardins à concevoir un  
23 projet unique en son genre au Canada français. Sur le  
24 campus de la Cité Des Jardins, à Lévis, sera donc aménagé  
25 un centre de formation professionnelle dans un cadre  
26 résidentiel, susceptible d'accueillir des groupes de  
27 quarante à cinquante stagiaires.

28  
29 Programmes éducatifs de télévision et de radio

30 76. On n'a pas fini de citer, tant dans les milieux







1 d'éducation populaire que dans le monde de la publicité,  
2 l'exemple de la collaboration qui existe depuis bientôt  
3 cinq ans entre le service des émissions éducatives et d'affaires  
4 publiques de Radio-Canada d'une part, et l'Assurance-  
5 Vie Desjardins et les Caisses populaires, d'autre part.  
6 Ce programme de télévision fut une réussite incontestable;  
7 réussite des commanditaires dont l'initiative a dû paraître  
8 au début fort hasardeuse; réussite qui a ainsi popularisé  
9 une formule d'émission dans laquelle l'on faisait souvent  
10 appel à l'opinion de l'homme de la rue et où on laissait  
11 la vedette aux citoyens mêmes qui vivaient les problèmes  
12 à l'étude.

13 77. La série d'émissions télévisées "Joindre les deux  
14 bouts" a retenu un auditoire d'un million et demi de per-  
15 sonnes, chiffre record pour les émissions du genre. Le  
16 programme connu sous le nom de "Droit de Cité", consacré  
17 à l'administration publique des municipalités et des com-  
18 missions scolaires, a remplacé "Joindre les deux bouts".

19 78. Les Caisses populaires Desjardins et l'Assurance-  
20 Vie Desjardins commanditent aussi depuis quelques années  
21 un programme populaire sur tout le réseau français de  
22 Radio-Canada, connu sous le nom de "Fête au Village".  
23

#### 24 Combat de l'usure

25 79. Les Caisses populaires se sont avérées les armes  
26 les plus efficaces contre l'usure favorisée de nos jours par  
27 un système compliqué de ventes à crédit et de petits prêts à  
28 taux d'intérêt prohibitifs.

29 80. Les chiffres suivants soulignent l'importance  
30 des prêts consentis en nombre et en valeur.





| Année | Reconnaisances de dette |                | Hypothèques |                |
|-------|-------------------------|----------------|-------------|----------------|
|       | Nombre                  | Montant        | Nombre      | Montant        |
| 1958  | 93,479                  | \$ 48,567,100. | 18,055      | \$ 66,832,471. |
| 1959  | 101,326                 | 56,565.201     | 21,459      | 84,763,047.    |
| 1960  | 103,824                 | 59,617.073     | 17,637      | 64,993.017.    |
| 1961  | 115,593                 | 72,051.631     | 20,588      | 80,570,730.    |

81. En 1961, les prêts sur reconnaissance de dette étaient répartis comme suit:

|                       | Nombre  | Montant       |
|-----------------------|---------|---------------|
| Moins de \$100.       | 11,747  | \$ 595,596.   |
| \$100. à \$199.99     | 16,818  | 2,225,754.    |
| \$200. à \$499.99     | 37,631  | 11,555,796.   |
| \$500. à \$999.99     | 29,400  | 18,299,358.   |
| \$1,000. à \$4,999.99 | 18,340  | 25,024,677.   |
| \$5,000. et plus      | 1,657   | 14,350,450.   |
| Total:                | 115,593 | \$ 72,051,631 |

82. Le gouvernement fédéral a dépensé des sommes considérables et a retenu l'attention des députés et des sénateurs durant de longues séances, à peu près chaque année depuis très longtemps, pour chercher des moyens efficaces de combattre les prêts à taux d'intérêt exorbitant. Des législations ont été mises en vigueur qui se sont avérées, règle générale, inefficaces dans la pratique; les vendeurs à crédit et les prêteurs trouvent toujours moyen de contourner la loi.

83. Les Caisses populaires ont fait un travail considérable d'assainissement dans le domaine des petits prêts et du prêt sur l'habitation. Les taux d'intérêt et les conditions faciles de remboursement sont à la portée des





1 petites gens. Les excédents nets des bénéfices, le cas  
2 échéant, sur les dépenses leur sont remis sous forme de  
3 ristourne.

4 84. Non seulement les Caisses populaires ne retirent  
5 aucun avantage du gouvernement fédéral, mais par leurs  
6 activités, celles de leurs dirigeants et de leurs sociét-  
7 aires, elles enrichissent la population, que devient plus  
8 en mesure de supporter les taxes et d'accroître l'activité  
9 économique du pays.

10 85. Et c'est ainsi que se sont établies des succur-  
11 sales de banques à des endroits où il n'y en avait pas,  
12 parce que les Caisses populaires y avaient jeté une  
13 semence depuis quelques années en contribuant au développe-  
14 ment économique de ces milieux. Ce phénomène se reproduira  
15 grâce au travail de pionnier fait gratuitement par les  
16 sociétaires de Caisses populaires et les dirigeants de ce  
17 mouvement.

18  
19 Services gratuits aux gouvernements  
20 fédéral et provincial

21 86. Il convient de signaler d'autres services que  
22 les Caisses populaires ont rendus et rendent bénévolement  
23 aux Etats fédéral et provincial bien qu'ils soient coûteux  
24 aux Caisses populaires. Nous voulons mentionner l'encais-  
25 sement sans frais des chèques des deux gouvernements qui  
26 n'ont pas de dépôt dans les Caisses populaires alors qu'ils  
27 en maintiennent dans les banques. Les Caisses populaires  
28 doivent donc supporter le débit flottant à partir du moment  
29 où le chèque est payé ou crédité au sociétaire jusqu'au  
30 jour de son encaissement à une banque à charte.





1 Inversement, les ordres de paiement tirés sur les Caisses  
2 populaires et payables à l'ordre des gouvernements fédéral  
3 et provincial, étant déposés dans les banques à charte,  
4 prolongent les délais de compensation et accroissent le  
5 débit flottant des Caisses populaires de plusieurs millions  
6 de dollars, sans compter un déboursé en commissions de \$550,  
7 000. par année.

8 87. Les Classes populaires ont contribué, comme toutes  
9 les autres institutions financières, à la vente des  
10 obligations d'épargne du Canada, mais elles sont traitées  
11 en parents pauvres puisqu'elles doivent payer les obligations  
12 avant de pouvoir en faire la vente à leurs sociétaires,  
13 alors que les banques reçoivent les obligations en consign-  
14 ation. Le même traitement défavorable est imposé pour  
15 les encaissements d'obligations d'épargne et de coupons,  
16 dont les Caisses populaires supportent le débit flottant.

### 17 18 III - CONCLUSIONS

19 88. Le rapport de la commission d'enquête sur les  
20 coopératives publié en 1945 contient l'affirmation que  
21 les Caisses populaires encouragent "les personnes aux  
22 ressources modestes" "à acquérir l'habitude d'économiser".  
23 Le rapport note aussi que la Caisse populaire "assure  
24 un service à ceux qui ne pourraient obtenir aucun service  
25 de crédit d'autres institutions de prêt, ou qui ne pourraient  
26 en obtenir qu'à des taux plus forts à cause des risques  
27 du jeu." L'affirmation que "La Caisse populaire fournit  
28 à ses membres les moyens et stimulants pour régler leurs  
29 problèmes eux-mêmes plutôt qu'en comptant sur l'aide de  
30







1 l'Etat dans les périodes de crise ou de stagnation" semble  
2 concluante.

3 89. Le rapport ajoute: "Nous sommes convaincus que  
4 les Caisses populaires remplissent un rôle très utile en  
5 aidant les personnes qui ne peuvent profiter efficacement  
6 des facilités d'épargne et de crédit offertes par les  
7 autres institutions de prêts. Nous sommes aussi convain-  
8 cus que les Caisses populaires ne supplantent pas un autre  
9 genre d'entreprise commerciale, si ce n'est qu'elles  
10 fournissent une autre source de prêts dans un domaine  
11 où les prêteurs d'argent ou les institutions de prêt  
12 n'offrent pas de facilités de crédit semblables à des taux  
13 net comparables. Il est donc évident que ces Caisses  
14 complètent utilement les autres institutions de prêt et  
15 que leur essor continu est à désirer au point de vue de  
16 l'intérêt public."

17 90. "Les Caisses populaires distribuent à leurs  
18 adhérents une très forte proportion de leurs excédents  
19 de recettes. Cependant, il arrive parfois qu'elles  
20 retiennent des sommes qui paraissent, à la lumière de  
21 l'expérience, plus considérables qu'il n'est nécessaire  
22 pour les réserves contre les prêts douteux et les pertes.  
23 Si elles devaient être taxées suivant les méthodes que nous  
24 avons recommandées pour les sociétés coopératives, les  
25 additions à ces réserves excédentaires seraient assujetties  
26 à l'impôt. Toutefois, les sommes particulières qui  
27 seraient imposées seraient très souvent, très faibles. De  
28 plus, nous estimons qu'il n'est pas à propos de décourager  
29 l'accumulation de réserves en vue de protéger les épargnes  
30 des membres qui touchent pour la plupart des revenus





1 faibles ou très modérés."

2 91. Et enfin, "On a soutenu, et à bon droit, que les  
3 dividendes sur les actions retirables étaient semblables  
4 aux versements d'intérêt sur les dépôts bancaires et  
5 ne devraient pas, par conséquent, être déduisibles à la  
6 source."

7 92. Voilà pourquoi la Commission d'Enquête sur les  
8 Coopératives de 1945 a recommandé:

9 1 - "Que le revenu des coopératives de crédit ou  
10 Caisses populaires continue à être exempté d'impôt en  
11 vertu de l'article 4, alinéa (a) de la Loi de l'impôt de  
12 guerre sur le revenu."

13 2 - "Que l'article 4 (q) de la Loi de l'impôt de  
14 guerre sur le revenu soit modifié de façon à préciser:

15 a) qu'il embrasse les fédérations dont les  
16 membres peuvent comprendre d'autres Caisses populaires,  
17 associations coopératives, paroisses, arrondissements  
18 scolaires et autres organismes semblables.

19 b) que les associations exceptées sous le  
20 régime dudit article doivent tirer d'abord leurs recettes  
21 de prêts effectués en premier lieu aux membres."

22 93. Le gouvernement canadien a d'ailleurs sanctionné  
23 ces recommandations en les incorporant dans la Loi de l'impôt  
24 sur le revenu - Chapitre 148 - Partie I - Statuts Révisés du  
25 Canada 1952:

26 "Article 62 - Aucun impôt n'est exigible en vertu de la  
27 "présente Partie sur le revenu imposable d'une personne pour  
28 la période où cette personne était . . .

29 (k) une corporation ou association constituée  
30 ou organisée comme caisse populaire ou société coopérative





1 "de crédit si

2 " (1) elle était restreinte à exercer ses opérations

3 "dans une seule province et tirait son revenu principale-

4 "ment de prêts effectués à des membres résidant dans cette

5 "Province, ou d'obligations émises, ou garanties par le

6 "gouvernement du Canada ou d'une province, ou,

7 " (11) ses membres étaient des corporations ou

8 "associations.

9 " A) constituées ou organisées comme caisses

10 "populaires dont sensiblement la totalité ont surtout tiré

11 "leurs revenus de prêts consentis aux membres ou d'oblig-

12 "ations émises ou garanties par le gouvernement du Canada

13 "ou d'une province,

14 " B) constituées, organisées ou enregistrées

15 "sous le régime d'une législation coopérative provinciale,

16 "ou régies par ladite législation, ou . . . . ."

17 94. Les Caisses populaires Desjardins, avons-nous rap-

18 pelé, s'emploient, par tous les moyens de persuasion à

19 leur disposition, à faire l'éducation économique et sociale

20 de leurs membres. Elles s'efforcent de rejoindre les

21 familles afin de les aider à se bien administrer, à vivre

22 selon leurs moyens, dans la sécurité. Elles veulent les

23 protéger contre les abus du crédit à la consommation qui

24 causent la ruine de tant de foyers. Elles les incitent

25 à faire des épargnes, source du capital nécessaire aux in-

26 vestissements requis tant pour le développement de notre

27 économie que pour le maintien de notre autonomie politique.

28 95. Les Caisses populaires contribuent donc pour

29 leur part à la prospérité et à la santé de l'économie canad-

30 ienne. En enseignant à leurs membres un usage modéré et





rationnel du crédit et en gardant toujours ce crédit populaire lié à l'épargne populaire et fonction de celle-ci, les Caisses populaires contribuent à régulariser la consommation et à diminuer les périodes de chômage résultant d'une surproduction attribuable à un pouvoir d'achat mal utilisé et à un abus massif du crédit.

96. Les Caisses populaires sont un puissant facteur de progrès et de stabilité économiques des familles et de la nation. Quoi d'étonnant que les milliers de citoyens qui les administrent s'y dévouent sans recevoir aucune rémunération. Ils sont pleinement conscients qu'ils font une oeuvre magnifique de bien commun dont tous et chacun bénéficient; ils sont heureux, c'est là leur salaire, de participer au bien-être des foyers et à la prospérité de leur pays.

\* \* \* \* \*

NOTE: Des statistiques complètes ont été fournies à l'appendice du mémoire de la Fédération de Québec des Unions régionales des Caisses populaires Desjardins à la Commission Royale d'Enquête sur le Système Bancaire et Financier. Vous devriez pouvoir consulter cette documentation si nécessaire.







A PRELIMINARY STUDY SUBMITTED TO THE

ROYAL COMMISSION ON TAXATION

CREDENTIALS

1. The Chambre de commerce du district de Montréal

is a body comprising over three thousand members and about four hundred companies.

2. The principal aim of the Chamber of Commerce is generally to promote the civic, social and economic welfare of French-Canadians and of the citizens of Montreal in particular.

3. The Chamber of Commerce has, for many years, formed a Taxation Committee, which has reported on the incidence of taxation on the social and economic life of our citizens.

4. This year, the Committee has met over thirty times in order to draft the paper submitted to the Charter Commission.

5. The Committee has read a number of papers on the subject of taxation and has invited several economists to speak about specific problems.

6. Membership of the Committee was as follows:

|                           |                            |
|---------------------------|----------------------------|
| René Lemire               | President of the Committee |
| Marcel Camirand           | Committee Reporter         |
| Jean-Claude Bertrand      | Accountant                 |
| Jérôme Carrière, C.A.     |                            |
| Jean Casgrain, Q.C.       |                            |
| Miss Micheline Corbeil    | Lawyer                     |
| Bruno Cyr                 | Lawyer                     |
| Paul d'E. Clément, A.P.A. |                            |
| Sylvio de Courcy, C.A.    |                            |





- 1 Jean-Marie Duhamel, C.P.A.
- 2 A. Maurice Duval, C.A.
- 3 Maurice Forest, C.A.
- 4 Hervé Forget, C.A.
- 5 Georges Grondin
- 6 Robert Jacques, C.A.
- 7 Jacques LaRivière
- 8 Eucher Lefebvre, A.P.A.
- 9 Henri-Paul Lemay, Q.C.
- 10 Maurice Martel Lawyer
- 11 D.A. Ménard, C.A.
- 12 Maurice Messier, C.A.
- 13 Paul Galt Michaud Lawyer
- 14 Raymond Morcel
- 15 Charles McLaughlin, C.A.
- 16 Paul Noiseur, C.A.
- 17 Yvon Normandin, C.A.
- 18 Jean-Marc Poulin Lawyer
- 19 Maurice Richard, C.A.
- 20 Jean-Guy Rousseau, C.A.
- 21 Marcel St-Denis, C.A.
- 22 Guy Vary, C.A.
- 23 Jean Zalloni, C.A.
- 24 7. The members of the Committee drafted a preliminary
- 25 paper which was submitted to the Chamber's Board of Direc-
- 26 tors and accepted by them.
- 27 8. This paper now reflects the official opinion of
- 28 the Chamber of Commerce.
- 29 9. At a later date, the Chamber of Commerce may, if
- 30 it deems it necessary, submit a more detailed paper in





1 order to develop certain opinions set forth in the present  
2 draft.

3 PREAMBLE

4 First principle: The constitutional context

5 The powers and responsibilities of the Federal  
6 and of the Provincial Governments are defined in the  
7 British North America Act.

8 The Federal Government has the power to tax.  
9 The Provincial Governments have this power also in line  
10 with their responsibilities. During the post-war period,  
11 the Federal Government tended to collect taxes for activi-  
12 ties which were not within its jurisdiction. This move by  
13 the Government has been much discussed; it has been justi-  
14 fied by some and blamed by others, but the fact remains and  
15 must be admitted.

16 Having large sums of money at its disposal, the  
17 Federal Government has distributed largesse by means of all  
18 kinds of joint programs and subsidies.

19 In the light of these circumstances, the Chamber  
20 of Commerce feels that there should be a new basis of tax  
21 sharing between the Federal Government and the Provinces,  
22 which would take into account the responsibilities of each.

23 As a corollary, the Chamber of Commerce recognizes  
24 that it is necessary to subsidize the less favoured provinces.  
25 However, the subsidies must be based on some equalization  
26 formula.

27 The delicate problem of determining just how far  
28 the subsidies should go arises at this point. Should an  
29 independent commission be made responsible for the equaliza-  
30 tion formula? Should not basic services be the only ones





1 taken into account? Should the subsidies not be kept to a  
2 minimum?

3 The Chamber of Commerce is examining these ques-  
4 tions at present and it will be in a position to submit a  
5 paper later.

6 Another principle should be stated here: under  
7 such a system, the Federal Government should not, either  
8 directly or indirectly, oblige the provinces to use the  
9 subsidies for specific purposes.

10 Provinces should be free to use equalization  
11 payments in the manner they think best.

12 Second principle: the different legal system

13 The legal system in the Province of Quebec is not  
14 the same as that of the other provinces.

15 It follows that it is essential that federal tax  
16 laws should take Quebec's civil law into account, otherwise  
17 they may be unfair to a large section of the Canadian popu-  
18 lation.

19 The fact is that, in the past, the co-existence  
20 of the two legal systems has not been taken into considera-  
21 tion.

22 Many examples could be quoted to show how certain  
23 citizens have been penalized because the operation of the  
24 French civil law had been overlooked. The Quebec taxpayer,  
25 for instance, is penalized under the provisions of the gift  
26 tax, and in transactions between husband and wife. This  
27 incredible situation is most unsatisfactory.

28 The incidence of death duties is also closely  
29 related to the legal system.







1 Third principle: Choice of the methods of taxation

2 Under the Commission's terms of reference, it is  
3 called upon to review the tax structure in ways consistent  
4 with the maintenance of the present flow of federal revenue.

5 This condition will be borne in mind in the  
6 following pages. Whenever a suggestion is made which would  
7 tend to reduce revenue, compensation will be sought in other  
8 fields.

9 Having made this clear, we now put forward  
10 another major principle:

11 "This Chamber of Commerce is of the opinion  
12 that emphasis should be placed on consumer  
13 (indirect) taxes, rather than on producer  
14 (direct) taxes."

15 As we examine each of these forms of taxation,  
16 we shall suggest how this principle can be applied.

17 DIRECT AND INDIRECT TAXATION

18 A. Direct Taxes

19 Having divided the various taxes into two broad  
20 categories, direct and indirect, we shall examine each  
21 individually. Under the heading direct taxes, we shall  
22 first examine personal income tax and then corporation  
23 taxes.

24 (1) Personal Income Tax

25 We shall consider two aspects of personal income  
26 tax: equity and its economic consequences.

27 (a) Equity

28 Fourth principle: subsistence level

29 With regard to personal income tax, the Chamber  
30 of Commerce is of the opinion that a sound taxation policy





1 should be based on the following principle:

2 "Personal income tax should not be levied on  
3 income necessary for the subsistence of the  
4 taxpayer and of his family."

5 To achieve this object, the Chamber of Commerce  
6 recommends that basic exemptions should be set so as to  
7 safeguard this minimum income.

8 Fifth principle: income above subsistence level

9 1. With regard to income above the subsistence level,  
10 the Chamber of Commerce has examined, among others, four  
11 possible alternatives:

- 12 - retain the graduated scale
- 13 - retain the graduated scale, with a maximum
- 14 rate of 50%
- 15 - apply a single rate, and increase the exemp-
- 16 tions
- 17 - use a two-tier tax system, with a minimum
- 18 rate applying immediately above the subsistence
- 19 level, followed by an average rate.

20 2. The Chamber of Commerce is of the opinion that  
21 the graduated scale should be maintained, because the burden  
22 of taxation is thus more equitably spread.

23 3. But it does not seem equitable that a taxpayer  
24 should be called upon to pay more than 50% of his income  
25 in taxes. Such taxation discourages enterprise.

26 (b) Economic consequences

27 Sixth and seventh principles

28 The Chamber of Commerce recognizes that one of  
29 the most important economic aims of taxation should be to  
30 encourage the formation of Canadian capital. In order to





1 achieve this objective, steps can be taken with regard to  
2 dividends and capital gains.

3 (1) Dividends

4 In this field, the Chamber of Commerce suggests  
5 two alternatives:

6 (a) Considerable reduction of the taxes paid by  
7 persons resident in Canada on dividends paid by  
8 taxable Canadian corporations. Such a step  
9 would:

- 10 - Promote investment in Canadian companies  
11 - Simplify enforcement to a significant extent.

12 (b) Removal of the tax paid by persons resident  
13 in Canada on dividends paid by taxable Canadian  
14 corporations. This would discourage tax evasion,  
15 but might prove unfair to certain groups of tax-  
16 payers. It would therefore be necessary to  
17 consider amendments in other fields of taxation.

18 (2) Capital gains

19 The Chamber of Commerce is of the opinion that  
20 the policy of not taxing capital gains should  
21 be continued.

22 (2) Corporation Tax

23 First problem: A standard tax - Eighth principle

24 (a) In the view of the Chamber of Commerce,  
25 corporation taxes are too high. A start  
26 should be made on reducing these taxes.

27 At this point, a distinction should be drawn  
28 between two types of business:

- 29 - monopolies in the hands of one or of several  
30 firms





- businesses in open competition

Assuming a single standard rate of tax, monopolies will tend to pass on most of the tax to the consumer.

In the case of open competition, only part of the tax will be thus passed on. The standard rate, which is easy to apply, is unfavourable to businesses in open competition.

To the extent to which it is passed on to the consumer, the tax is a hidden sales tax.

It is a bad tax, because the consumer pays it on all products indiscriminately. In the case of foodstuffs, for instance, it penalizes efficient producers and hinders exports by increasing the price of the goods.

(b) The Chamber of Commerce views with favour all measures which promote the well-being of industry.

Second problem: Small and medium-sized businesses

A high rate of taxation prevents small and medium-sized businesses from accumulating capital to enable them to compete with big business.

The Chamber of Commerce feels that it is very necessary to allow small and medium-sized businesses to accumulate capital.

From this angle, the single standard rate raises a problem. Means should be found to enable small and medium-sized businesses to retain the privileges they have already acquired.

(3) Death duties - Ninth principle

The Chamber of Commerce recommends that federal death and gift taxes should be abolished.

These taxes, which provide very little revenue







1 for the Federal Government, affects property rights more  
2 than any other tax. For this reason, death duties and  
3 duties on gifts should be left to the provinces.

4 B. Indirect taxes

5 We shall now examine indirect taxes: sales taxes,  
6 excise and customs duties.

7 (a) Sales tax

8 Earlier in this paper, we stated that a loss of  
9 revenue in one field should be compensated by increased  
10 revenue in another. We feel that the sales tax is an  
11 important source of revenue.

12 (1) Tenth principle

13 The Chamber of Commerce recommends that the sales  
14 tax now levied at the manufacturer's level should be  
15 replaced by a sales tax at the retailer's level.

16 The tax would thus be brought very close to the  
17 consumer.

- 18 - It would interfere less with price structure
- 19 - It would be more easily enforced than a tax
- 20 on the manufacturer
- 21 - It would eliminate notional sales prices
- 22 - It would bring home to the consumer the amount
- 23 of tax that he is called upon to pay.

24 (2) The collection of taxes

25 The Chamber of Commerce is of the opinion that a  
26 double system of tax collection is a complication which  
27 adds to the costs which the taxpayer has to bear.

28 Overlapping should be avoided, without infringing  
29 however, on individual rights.





1 (b) Excise Duty - Eleventh principle

2 The Chamber of Commerce recognizes that certain  
3 excise duties are justified, in as far as they do not  
4 affect the use of essential goods.

5 From the standpoint of political economy, such  
6 taxes are necessary in order to provide revenue from the  
7 luxury trade.

8 (c) Customs duties

9 The Chamber of Commerce feels that customs duties  
10 also tie in very closely with the national economic policy  
11 and that they are therefore justified in certain circum-  
12 stances.

13 They may be very useful in international trade as  
14 a means of influencing the balance of payments. Their use  
15 will depend on whether the national policy is one of free  
16 trade or of protectionism.

17 April 19th, 1963.

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## HEARINGS

HELD AT

## MONTREAL

P. Q.

BRIEFS

VOLUME No.:





ANGUS, STONEHOUSE & CO. LTD  
TORONTO, ONTARIO

1  
2  
3 MEMORANDUM  
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6 to the  
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9 ROYAL COMMISSION ON TAXATION  
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12 by  
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15  
16 Julius M. Scharing  
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19  
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22 APRIL 1963  
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1 Mr. Chairman and Members of the Commission:

2 As a taxpayer of Canada, I have had to make,  
3 during the years, different applications of the tax laws  
4 to calculate the proper amount of taxes to be paid to the  
5 government as well as to consider the rights of a taxpayer  
6 and the rights of the Minister of National Revenue as  
7 laid down by the rules and regulations of the law.

8 I came to the conclusion from my experience in  
9 filing tax returns and dealings with different departments  
10 of the district taxation office that, in my opinion,  
11 certain changes should be made in the tax laws. I want to  
12 specify that these changes are concerned in respect of the  
13 personal income tax by which most people are affected.

14 I received the news about the appointment of the  
15 Royal Commission on Taxation with great interest and, I  
16 appreciate having the opportunity to submit this memoran-  
17 dum for your consideration and possible inclusion into  
18 your recommendations for action by our government to  
19 relieve some of the burden of our taxpayers and, by such  
20 action, to better our economy.

21 My memorandum does not cover general overall  
22 references to the income tax structure, it rather refers  
23 to specific sections of the Act.

24 The proposed amendments, deletions and additions  
25 referred to in this memorandum as to "Income Tax Act",  
26 shall have the meaning as reference to the Income Tax Act,  
27 Chapter 148 of R. S. C. 1952 as amended by  
28 chapter 40 of the Statutes of 1952-53,  
29 chapter 57 of the Statutes of 1953-54,  
30





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1 chapters 54 and 55 of the Statutes of 1955,  
2 chapter 39 of the Statutes of 1956,  
3 chapter 29 of the Statutes of 1957,  
4 chapter 17 of the Statutes of 1957-58,  
5 chapter 32 of the Statutes of 1958,  
6 chapter 45 of the Statutes of 1959,  
7 chapter 43 of the Statutes of 1960,  
8 chapters 17 and 49 of the Statutes of 1960-61,  
9 chapter 78 of the Statutes of 1962,  
10 An Act respecting Income Taxes.

11 I assume that the costs of living is considered  
12 for establishing the basic deductions of a taxpayer and  
13 his dependants from his personal income.

14 Whereas the cost of living went up considerably  
15 during the last 20 years, especially in the basic commodi-  
16 ties, and earnings did not keep up with them proportion-  
17 ately and, the expenditures necessary for a proper living  
18 taken under consideration for establishing the allowable  
19 deductions under the Income Tax Act are, in my opinion,  
20 too low and should be increased and,

21 Whereas the difference between the allowable  
22 deduction for dependant children qualified and not qual-  
23 ified for family allowances is too great,

24 I, therefore, propose to change the Income Tax  
25 Act as follows:-

26 1. Paragraph (a) of subsection (1) of section 26  
27 of division C in respect of deduction of married status  
28 and dependant children, the amount be increased from  
29 \$2,000.00 to \$3,000.00.  
30





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2. Paragraph (b) of subsection (1) of section 26 of division C in respect of a single person, the amount be increased from \$1000.00 to \$1500.00.

3 Paragraph (ba) of subsection (1) of section 26 of division C in respect of persons wholly dependant upon more than one taxpayer, the amount be increased from \$1000.00 to \$1500.00.

4 Paragraph (c) of subsection (1) of section 26 of division C in respect of children, the amount be increased from \$300.00 to \$700.00 if the child or grandchild was a child qualified for family allowance and, from \$550.00 to \$800.00 if the child or grandchild was not so qualified.

5 Paragraph (d) of subsection (1) of section 26 of division C in respect of other dependants, the amount be increased from \$300.00 to \$700.00 if the person was a child qualified for family allowance, from \$550.00 to \$600.00 if the person was qualified for old age pension and, from \$550.00 to \$1000.00 if the person was not qualified for old age pension.

6 Subection (2) of section 26 of division C in respect of limitation on deduction of spouse, the amounts be increased from \$250.00 and not exceeding \$1250.00 to \$500.00 and not exceeding \$1500.00 and the deduction allowed from \$2000.00 to \$3000.00.

7 Subparagraph (1i) of paragraph (a) of subsection (5a) of section 26 of division C in respect of additional limitation, the amount be increased from \$1000.00 to \$1500.00.





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8 Subsection (6) of section 26 of division C in  
 2 respect of partial dependency, the amount be increased  
 3 from \$300.00 or \$550.00 to \$700.00 or \$600.00 or \$1000.00,  
 4 as the case may be.

5 Whereas the cost of medical care and necessary  
 6 expenditures to keep healthy are quite an expense to our  
 7 citizens and are not sufficiently considered in the Act  
 8 and, as long as we have no federal health insurance in  
 9 Canada to cover complete medical care and, our citizens  
 10 desire some protection against the financial burden of  
 11 sickness by other means of insurance,

12 I, therefore, propose to change the Income Tax  
 13 Act in this respect as follows:-

14 9 Paragraph (c) of subsection (1) of section 27  
 15 of division C in respect of deduction of medical expenses  
 16 of an amount equal to that portion in excess of 3% of the  
 17 taxpayer's income shall be repealed and substituted by  
 18 providing allowance for the deduction of all medical  
 19 expenses paid either by the taxpayer or his legal repre-  
 20 sentatives for the time and services specified in the  
 21 Income Tax Act and if payment of the expenses is proven  
 22 by filing receipts with the Minister.

23 10 If my proposed amendment under paragraph 9  
 24 above will not be adopted then I propose that subparagraphs  
 25 (iv) and (iva) and (v) of paragraph (c) of subsection  
 26 (1) of section 27 of division C in respect of allowance  
 27 for deductions.

28 (iv) as remuneration for one full-time attendant  
 29 upon or for the full-time care in a nursing home  
 30









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1 of, the taxpayer, his spouse or any such depen-  
2 dant who was confined by reason of illness, in-  
3 jury or affliction to a bed or wheel chair,  
4 (iva) for the full-time care in a nursing home  
5 of any such dependant if the dependant is, and  
6 has been certified by a qualified medical practi-  
7 tioner to be a person, who is and in the fore-  
8 seeable future will continue to be dependant  
9 on others for his personal needs and care,  
10 (v) as remuneration for one full-time attendant  
11 upon the taxpayer, his spouse or any such de-  
12 pendant who was totally blind at any time in  
13 the taxation year and required the services of  
14 an attendant,

- 15 (A) shall be deleted from this subsection,  
16 (B) be made a separate section,  
17 (C) the full amount of the expenses shall be  
18 allowed for deductions.

19 11 If paragraph (c) of subsection (1) of section  
20 27 of division C be amended as proposed under paragraph  
21 9 on page 5 then paragraph (ca) of subsection (1) of  
22 section 27 of division C in respect of the allowance of  
23 a standard deduction of \$100.00 for medical expenses,  
24 charitable donations and certain dues without filing  
25 receipts with the Minister shall be repealed.

26 12 A new subsection shall be added to section 27  
27 of division C as follows:

28 There may be deducted from the income for the  
29 year premiums paid either by the taxpayer or his legal  
30





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1 representatives for sickness insurance, accident insurance,  
2 hospital insurance to a recognized insurance company or  
3 association authorized to such collections if payment  
4 of the premiums is proven by filing receipts with the  
5 Minister.

6         The present regulations stipulate that revenue  
7 property is to be considered disposed of even if it is  
8 used for living quarters of the owner's family and, the  
9 previous allowable deductions of capital cost allowances  
10 have to be recaptured and taxes paid on. I consider this  
11 not to be justified because no income was derived from  
12 the disposal,

13         I, therefore, propose that

14 13.         A new sentence shall be added after paragraph  
15 (a), (e) and subparagraph (ii) of paragraph (f) of sub-  
16 section (6) of section 20 of division B of the Income  
17 Tax Act as follows:-

18         Exemptions shall be made if the said property  
19 is used as living quarters of the owner and his  
20 immediate family (wife, husband and their children  
21 and the parents and parents-in-law) and no  
22 revenue is received by such use.

23         Whereas, in our society, we do not consider a  
24 man guilty unless proven guilty, a taxpayer shall not  
25 be compelled to pay taxes assessed by the Minister if he  
26 considers they are not right and files an objection within  
27 the 30-day time limit required to pay the assessed taxes,

28         I, therefore, propose that

29 14.         Section 51 of division F of the Income Tax Act  
30





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shall be amended

(A) by deletion of the last part of subsection (1),

(B) addition of a new subsection (2),

(C) the present subsection (2) becoming subsection (3).

The revised section would read as follows:-

51. (1) The taxpayer shall, within 30 days from the mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid.

(2) Where a taxpayer files an objection to the assessment or an appeal from the assessment is outstanding, the 30-day limit specified in subsection (1) shall not apply until a final decision is arrived at.

(3) Where, in the opinion of the Minister, a taxpayer is attempting to avoid payment of taxes, the Minister may direct that all taxes, penalties and interest be paid forthwith upon assessment. 1948, c. 52, s.48.

Laws, rules and regulations are written sometimes in a way that they may be interpreted differently by different persons, having as a result that omissions or additions are made without bad intentions, or, a mistake may be made sometimes. These facts apply also to the income tax laws and, depending upon the work load of the employees of the tax departments, it will lapse more or less time until a taxpayer's return is re-checked and corrections made, if necessary.

As a taxpayer shall not be penalized to pay





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1 interest for such delays,

2 I, therefore, propose that

3 15. A new subsection be added to section 54 of  
4 division F of the Income Tax Act as follows:-

5 Where a Notice of Assessment was sent to the  
6 taxpayer and all taxes paid for the taxation year,  
7 the taxpayer shall not be liable to pay interest  
8 on any amount which shall arise out of a re-  
9 assessment by sending a Notice of Re-Assessment  
10 to the taxpayer, except, where, in the opinion  
11 of the Minister, a taxpayer is attempting to  
12 avoid payment of taxes.

13 Whereas the present Income Tax Act stipulates  
14 certain rights applying to the Minister but not to the  
15 taxpayer in the same matter where there should be equal  
16 rights to both parties in the same matter,

17 I, therefore, propose that

18 16. A new subsection be added to section 51 of  
19 division F of the Income Tax Act as follows:-

20 Where a taxpayer, after receiving the Notice  
21 of Assessment, has still a balance of tax unpaid,  
22 the taxpayer may, instead of making the payment,  
23 request the Minister to apply the unpaid amount  
24 to refunds on overpayments of other taxation  
25 years if such shall be the case.

26 Note:- (A) This subsection would apply equally to tax  
27 unpaid as subsection (2) of section 57 of  
28 division F applies to refunds.

29 (B) If my proposed paragraph 16 will be adopted  
30









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1 then the order of the subsections of my proposed  
2 amendment under paragraph 14 on pages 7 and 8  
3 shall be changed. This paragraph 16 shall become  
4 subsection (3) and subsection (3) shall become  
5 subsection (4).

6 17. Subsection (3) of section 57 of division F of  
7 the Income Tax Act in respect of interest paid at the  
8 rate of 3% per annum on overpayments, the rate shall be  
9 increased to 6% per annum.

10 Note:- The rate of 6% per annum in this subsection  
11 would apply equally to refunds as subsection  
12 (1) of section 54 of division F applies to the  
13 rate of 6% per annum on tax unpaid.

14 18. If my proposed amendment under paragraph 17 on  
15 page 10 in respect to the increase of the rate of interest  
16 payable on overpayment from 3% to 6% will be adopted, than  
17 subsection (3a) of section 57 of division F in respect of  
18 6% interest applicable on overpayments decided by a decision  
19 of the Tax Appeal Board, the Exchequer Court of Canada  
20 or the Supreme Court of Canada shall be repealed because  
21 it will be obsolete.

22 Whereas it would be unjustifiable for a taxpayer  
23 to be charged a fee for an appeal if he would not be able  
24 to pay such a fee, by which he will be prevented from  
25 filing an appeal with the Tax Appeal Board,

26 I, therefore, propose

27 19. If a taxpayer files a notice of appeal with the  
28 Tax Appeal Board, no fee shall be required to pay when  
29 doing so.

30 Therefore, the present section 90 of division





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1 I of the Income Tax Act in respect of paying a fee of \$15.00  
2 upon filing a notice of appeal shall be repealed at its  
3 present form and substituted by the following:-

4 90. No fee or fees shall be charged an appellant  
5 upon filing a notice of appeal with the Tax  
6 Appeal Board and no costs shall be awarded an  
7 appellant on the disposition of the appeal.

8 Having dealt so far with changes and revisions  
9 to the Income Tax Act affecting the tax structure itself,  
10 I want further to mention some points in respect to the  
11 administration connected with the procedure of the payment  
12 of the income tax as well as with the Income Tax Return  
13 Forms.

14 It is common in business transactions and agree-  
15 ments that, conditions agreed upon, be made in writing for  
16 the purpose that each party to such agreements will know  
17 the conditions agreed upon and can make reference to them  
18 when necessary. The same procedure should be followed by  
19 the Department of National Revenue to eliminate unnecessary  
20 arguments, difficulties and delays to the taxpayers as  
21 well as to the employees of the Income Tax Division. This  
22 procedure should be, in my opinion, specified in the  
23 Income Tax Act.

24 I, therefore, propose

25 20. To add a new section to the Income Tax Act as  
26 follows:-

27 Where a taxpayer is unable to pay all his taxes  
28 on the due date and he or his legal representative arranges  
29 to pay the balance of the tax or taxes by instalments, a  
30





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1 written agreement to this effect shall be sent to the  
2 taxpayer by the Director of Income Tax or his represent-  
3 ative of the respective District Taxation Office.

4 And whereas it is the practice of some district  
5 taxation offices to consider a money order stub or a  
6 cancelled cheque as a valid receipt and, the offices will  
7 issue official receipts only upon request by the taxpayer,  
8 this practice leaves the taxpayer in doubt if his payment  
9 has been credited properly and, further, the taxpayer will  
10 have quite some trouble if he would need necessary receipts  
11 of tax payments in case of evidence of such payments. The  
12 proof of payment by cancelled cheque will be further com-  
13 plicated if the taxpayer would have moved to a different  
14 place or province. I, therefore, propose

15 21 To add a new section to the Income Tax Act as  
16 follows:-

17 The Director of Income Tax or his representative  
18 of each district taxation office shall issue an official  
19 receipt to each taxpayer for each payment of tax made  
20 whether the tax or balance of tax is paid in full or by  
21 instalments.

22 Finally, I want to make a remark with regard to  
23 the Individual Income Tax Return Forms T1 Short as well  
24 as T1 General.

25 We all know what these forms look like, having  
26 used one or the other form several times and, one or the  
27 other time have struggled to squeeze the necessary answers  
28 into the little spaces provided after some of the questions.

29 I, therefore, propose,  
30





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22 To re-design the Individual Income Tax Return  
Forms, T1 Short and T1 General, of which a form of each  
is attached to this memorandum, by making the T1 Short  
form either larger or adding another page to it and to the  
T1 General adding another page, allowing more space or  
spaces for answers to the following questions:-

(1) Name of present employer

(2) Name and address on (last taxation year)

return:....Or.....

Income

(3) Names of all employers in (number of taxation  
year)

(4) Explain if total months employed is less  
than 12

(5) Alimony or separation allowance paid to

(6) Other deductions

(7) Annual union, professional or like dues  
paid to Claim for Personal Exemptions

(8) Name of child

(9) Relationship to you (of child)

(10) If over 21 state school attended or whether  
infirm

(11) Dependant's Name and Address

(12) Relationship to you (of dependant)

(13) If over 21, state whether infirm.

In conclusion of my remarks, I want to make  
also reference to the effects of these proposals in  
respect to the finances of the taxpayer as well as of the  
government.

If my proposals are accepted and included in the









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1 Income Tax Act, it will mean, first of all, a relief of  
2 some of the tax burden to many persons and increase their  
3 buying power. It will help the unfortunate persons who  
4 have to take care of sickness, hospitalisation and other  
5 requirements to be or to stay healthy as well as to our  
6 old and infirm people. It will give equal rights in certain  
7 matters to the taxpayers and the Minister, which, as I  
8 pointed out in this memorandum, is not the case at present.  
9 It may prevent, in some instances, difficulties in the  
10 application of some regulations of the Income Tax Act which  
11 will effect a better understanding between the taxpayers,  
12 the Minister and the employees of the Income Tax Division  
13 of the Department of National Revenue.

14           As far as the government is concerned, the  
15 revenues to the government will be somewhat less than they  
16 are at the present time if my proposed changes will be  
17 adopted and become law. However, to offset the loss to the  
18 government by increasing the tax exemptions and by other  
19 benefits, one part could be recovered from the savings  
20 in the whole government administration as recommended by  
21 the Glassco report on Government Administration and, the  
22 other part would be recovered by increased returns of  
23 income tax to the collected by the government from the  
24 increase in buying power of those taxpayers who will pay  
25 less tax, causing a bigger demand of goods which have to  
26 be produced, causing an increase in the working force,  
27 which will result in persons paying income tax who do not  
28 pay now. The production of more goods will affect also the  
29 collection of taxes by the government on more manufactured  
30 goods.





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1 Mr. Chairman and Members of the Commission, this  
2 concludes my presentation to the Commission and, as I  
3 remarked in my introduction, I hope that you will take my  
4 proposals under your consideration and possible inclusion  
5 into your recommendations for action by our government .  
6  
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• ONE SIGNED RETURN together with payment of balance of tax, if any, is to be mailed not later than 30th APRIL, 1963, to the TAXATION DATA CENTRE, P.O. BOX 456, OTTAWA 2, ONT.

2. 12. 1988

ATTACH COPY 1 OF T4 SLIPS  
TO PAGE 2 OF RETURN

### Sections

TOTAL \$ \_\_\_\_\_TAXABLE INCOME \$\_\_\_\_\_

You may be entitled to use the Tax Table and commence your tax calculation at the point indicated by the arrow.

Form authorized and prescribed by the Minister of National Revenue

Form authorized and prescribed by the Minister of National Revenue



# Claim for Personal Exemptions

ALL SPECIFIED DETAILS MUST BE PROVIDED FOR EACH EXEMPTION CLAIMED

• If this is wife's return, read "husband" for "wife".

• Income of your wife or dependants includes Old Age Security Pension or Assistance

• No claim may be made for a child or other dependant whose income in 1962 was over \$950, except as noted below \*

• If you are claiming dependants who did not reside in Canada, complete and attach form T1E-NR, which is obtainable at any District Taxation Office

BASIC EXEMPTION - - - - - CLAIM \$1000 \$

AGE EXEMPTION: If you were born in 1897 or earlier - - - - - CLAIM \$500

MARRIED OR EQUIVALENT EXEMPTION — If applicable, check ☒ and claim ONLY ONE of these six items

Married on or before 31st December, 1962 and

☐ Supported in 1962 wife whose income in that year, while married, was NOT OVER \$250 - - - - - CLAIM \$1000

☐ Supported in 1962 wife whose income in that year, while married, was OVER \$250 but not over \$1250 - - - - - \$ 1 2 5 0

NOTE: If your wife's income while married was over \$1,250 in 1962, you may not claim either the married exemption above or the equivalent exemption below less wife's income \$ CLAIM \$

Single, Divorced, Separated or Widow(er) in 1962 and

☐ Supported a wholly dependent child under age 21 or any age if infirm or in full-time attendance at a school or university Complete "DETAILS OF DEPENDANT" space! and CLAIM \$1000

☐ Supported a wholly dependent person related by blood, marriage or adoption and living in a dwelling maintained by you, Complete "DETAILS OF DEPENDANT" space! and CLAIM \$1000

☐ Supported, jointly with one or more other persons, in a dwelling maintained by you and such persons, a wholly dependent relative. (You may claim here ONLY if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling) Complete "DETAILS OF DEPENDANT" space! and CLAIM \$1000 Also, state the name and address of each other person who contributed to support—

☐ An unmarried minister or clergyman in charge of a diocese, parish or congregation in 1962 who maintained a dwelling and employed therein a full-time servant - - - - - CLAIM \$1000

† DETAILS OF DEPENDANT } Name \_\_\_\_\_ Address \_\_\_\_\_  
Income in 1962 \$ \_\_\_\_\_ Relationship to you \_\_\_\_\_  
If a child, state age and, if over 21, state school attended or whether infirm.

EXEMPTION FOR WHOLLY DEPENDENT CHILDREN (including grandchildren) —

Under age 21 or any age if in full-time attendance at a school or university or if infirm.

Provide details of children wholly dependent upon you in 1962 and claim \$300 for each child "qualified for Family Allowances" (generally, any child under 16—see Guide) and \$550 for each child not so qualified. If any child under the age of 16 in December 1962 was not qualified for Family Allowances, state the reason

| Name of child<br>(Attach list<br>if space insufficient) | Relationship<br>to you | Income<br>in 1962 | Age<br>in 1962 | If over 21 in 1962<br>state school<br>attended or whether<br>infirm |
|---------------------------------------------------------|------------------------|-------------------|----------------|---------------------------------------------------------------------|
|                                                         |                        | \$                |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |
|                                                         |                        |                   |                |                                                                     |

If you have claimed an exemption of \$1000 on account of a wholly dependent child you MAY NOT claim for that child here unless you supported the child in a dwelling wherein you employed a full-time servant. If you did, state servant's name here.

EXEMPTION FOR OTHER DEPENDANTS—PARENTS, GRANDPARENTS, BROTHERS OR SISTERS (including in-laws)

Provide details below and claim actual amount spent in 1962 in support of each dependant (not exceeding the allowable maximum of \$300 if the dependant was qualified for Family Allowances or \$550 if the dependant was not so qualified). If any other person has also contributed to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the maximum of \$300 or \$550 mentioned above. No claim may be made here for a dependant over age 21 who is not mentally or physically infirm, or for a dependant in respect of whom you have claimed an exemption of \$1000.

| Dependant's Name and Address | Relationship<br>to you | Income<br>in 1962 | Age<br>in 1962 | Amount spent by<br>you in support<br>of dependant | If over 21, state<br>whether infirm |
|------------------------------|------------------------|-------------------|----------------|---------------------------------------------------|-------------------------------------|
|                              |                        | \$                |                | \$                                                |                                     |
|                              |                        |                   |                |                                                   |                                     |
|                              |                        |                   |                |                                                   |                                     |

TOTAL PERSONAL EXEMPTIONS—ENTER ON PAGE 1 \$

\* If it is to your advantage, you may claim an exemption for a child or other dependant whose income in 1962 exceeded \$950 but the amount by which such income exceeded \$950 must then be added to your own tax as a Tax Adjustment on Page 1.









T1 GENERAL  
1962

See  
T1 General Information Sheet  
or  
Farmer's and Fisherman's Guide

## Individual Income Tax Return

### FOR USE BY INDIVIDUALS:

- In Business as Proprietors or Partners, including Farmers and Fishermen
- Receiving Professional Fees, Commissions or Rents
- With Investment Income over \$2,500
- Claiming Foreign Tax Credits or Capital Cost Allowance

ONE SIGNED RETURN together with payment of balance of tax, if any, is to be mailed not later than 30th April, 1963, to the TAXATION DATA CENTRE, P.O. BOX 456, OTTAWA 2, ONT.

|                                                                                                                                                                                                                                                                                                                                                                                   |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| FAMILY OR LAST NAME (PRINT)<br>Mr. Mrs. Miss                                                                                                                                                                                                                                                                                                                                      |  | CHRISTIAN OR FIRST NAMES (PRINT)                                                                                                                                                                                                                                                                                                                                                                                                        |  |
| PRESENT ADDRESS (PRINT)<br><br>(GIVE COMPLETE ADDRESS, INCLUDING CITY AND PROVINCE)                                                                                                                                                                                                                                                                                               |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| MAILING ADDRESS (if different from above)                                                                                                                                                                                                                                                                                                                                         |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| PROVINCE OF RESIDENCE ON 31st DECEMBER 1962:<br>SAME AS PRESENT ADDRESS <input type="checkbox"/> OR PROVINCE OF                                                                                                                                                                                                                                                                   |  | DATE OF BIRTH (Day) (Month) (Year)                                                                                                                                                                                                                                                                                                                                                                                                      |  |
| STATUS ON 31st DECEMBER, 1962<br><input type="checkbox"/> MARRIED } CHRISTIAN OR FIRST NAMES OF WIFE (HUSBAND)<br>ADDRESS OF WIFE (HUSBAND): SAME AS ABOVE <input type="checkbox"/> OR                                                                                                                                                                                            |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| <input type="checkbox"/> WIDOW(ER) <input type="checkbox"/> DIVORCED <input type="checkbox"/> SEPARATED <input type="checkbox"/> SINGLE                                                                                                                                                                                                                                           |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| IF IN BUSINESS OR A PROFESSION, STATE:<br>TYPE OF BUSINESS OR PROFESSION<br>NAME OF FIRM<br>BUSINESS ADDRESS<br>NAMES OF PARTNERS, IF ANY<br>AND IF FARMING, STATE:<br>LOCATION OF FARM<br>TOTAL ACREAGE CULTIVATED ACREAGE                                                                                                                                                       |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| IF EMPLOYED, STATE:<br>NAME OF PRESENT EMPLOYER UNEMPLOYMENT INSURANCE NO.<br>TYPE OF WORK OR POSITION IN 1962                                                                                                                                                                                                                                                                    |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| LAST INCOME TAX RETURN WAS FILED FOR THE YEAR 19 NAME AND ADDRESS ON THAT RETURN WERE: SAME AS ABOVE <input type="checkbox"/> OR                                                                                                                                                                                                                                                  |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| IF YOU DID NOT FILE A 1961 RETURN, STATE REASON                                                                                                                                                                                                                                                                                                                                   |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| IF YOU DID NOT RESIDE IN CANADA FOR 12 MONTHS IN 1962, GIVE DATE OF ENTRY OR DEPARTURE<br>(Immigrants and Emigrants—Refer to the 1962 T1 General Information Sheet for information as to the calculation of your tax.)                                                                                                                                                            |  |                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| <b>GIFT TAX</b><br>Did you transfer any property, securities or cash of a value in excess of \$1,000 to any person in 1962? (Yes, No) If "Yes" what was the total value of such gifts? \$<br>If the total value of such gifts exceeded \$4,000, complete and file a Gift Tax Return not later than 30th April, 1963. The form may be obtained from your District Taxation Office. |  | <b>INCOME FROM UNITED STATES</b><br>Did you receive income from sources within the United States for or on account of (a) Yourself? (Yes, No) (b) Any other person resident in Canada? (Yes, No) (c) Any other person not resident in Canada? (Yes, No)<br>If (c) is answered "Yes" file Canadian form NR1 and United States Form 1042 not later than 15th March, 1963. These forms may be obtained from your District Taxation Office. |  |

- **PENALTY**—The penalty for failure to file this return by the due date is 5 per cent of tax unpaid at that date.
- **INTEREST**—If income tax was not deducted at the source from at least three-quarters of your Net Income for 1962, you were required to make instalment payments of tax during that year. Late or insufficient instalments and unpaid taxes bear interest at 6 per cent per annum.
- **FARMERS AND FISHERMEN**—If your chief source of income was farming or fishing you may, subject to certain conditions, pay a tax for 1962 calculated on your average income of five years. Included in the conditions is the requirement that you complete and file, on or before 30th April, 1963, form T1 General in respect of your 1962 income, and form T2011 "Election to Average Income". For full information see the "Farmer's and Fisherman's Guide", 1962 Edition, or enquire at your District Taxation Office.

### Certification

I HEREBY CERTIFY that the information given in this return and in any documents attached is true, correct and complete in every respect and fully discloses my income from all sources.

DATE 19 TELEPHONE  
IT IS A SERIOUS OFFENCE TO MAKE A FALSE INCOME TAX RETURN

The material on this form is condensed from the Income Tax Act and Regulations which contain the terms of the law on which your tax is determined.  
Form authorized and prescribed by the Minister of National Revenue



## SUMMARY OF INCOME

Net Income from Business, Profession, Commissions, Farming, Fishing (See Page 4) . . . . . \$  
 Net Income from Real Estate (See Page 4) . . . . .  
 Investment Income (See Page 3) . . . . .  
 Salaries, Wages, Bonuses, Pensions, Taxable Allowances, Taxable Benefits (Attach Copy 1 of T4 Slips)  
 Tips, Gratuities, Casual Earnings . . . . .  
 Director's and Executor's Fees . . . . .  
 Alimony or Separation Allowance Received . . . . .  
 Old Age Security Pension . . . . .  
 Other Income (Specify) . . . . .

TOTAL \$

## DEDUCT:

Registered pension plan contributions . . . . . \$  
 Registered retirement savings plan premiums (Attach official statement or receipts) . . . . .  
 Other allowable expenses (Specify) . . . . .  
 Alimony or separation allowance paid to . . . . .

(Name and Address)

TOTAL OF ABOVE DEDUCTIONS

## DEDUCT:

TOTAL PERSONAL EXEMPTIONS (See Page 3) . . . . . \$

NET INCOME \$

MEDICAL EXPENSES: CHARITABLE DONATIONS; ANNUAL UNION, PROFESSIONAL OR LIKE DUES

Claim either A or B below (not both)

A—Standard Deduction of \$100 (no receipts required)

B—Total of Allowable Amounts Below

Total Medical Receipts—Attach List and Receipts . . . . . \$

Less 3% of "Net Income" . . . . .

Allowable portion of medical expenses . . . . . \$

Charitable Donations—Attach Receipts (Maximum 10% of "Net Income") . . . . .

Dues paid to . . . . .

(Name of organization)

Total \$

BUSINESS LOSSES OF PRIOR YEARS (See T1 General Information Sheet) . . . . . \$

TAXABLE INCOME \$

## Calculation of Tax

FEDERAL INCOME TAX on "TAXABLE INCOME"—See "Rates of Federal Income Tax" below . . . . . \$

ADD—TAX ADJUSTMENTS, if any (Specify) . . . . .

TOTAL INCOME TAX \$

## DIVIDEND TAX CREDIT

Amount of "Net" dividends from taxable Canadian corporations . . . . . \$

Amount of Credit—The credit is 20% of the above amount, but may not exceed "TOTAL INCOME TAX" . . . . .

## FEDERAL TAX ABATEMENT

BASIC TAX \$

For persons who were resident in any province on 31st December, 1962, and did not have income from a business with a permanent establishment outside the ten provinces, the deduction is 16% of the "BASIC TAX" . . . . .  
 (See T1 General Information Sheet)

FEDERAL INCOME TAX \$

ADD: OLD AGE SECURITY TAX—\$90 or 3% of "TAXABLE INCOME", whichever is less . . . . .

TOTAL FEDERAL TAX \$

FOREIGN TAX CREDIT—Make separate calculation for each foreign country

(a) Income or Profits Tax paid to foreign country . . . . . \$

Net Foreign Income† \$

Total Federal

Tax

(b) Net Income† \$

Tax

(As above)

† Do not deduct foreign income taxes paid in calculating these amounts.

Deduct (a) or (b) whichever is less

FEDERAL TAX PAYABLE \$

ADD: PROVINCIAL INCOME TAX (Except Quebec Income Tax)

Provincial income tax, in most cases based on province of residence at 31st December, 1962 (See T1 General Information Sheet) is payable at the following rates:

(a) Manitoba\* and Saskatchewan—22% of "BASIC TAX". (\*Including Hospital Services Tax)

(b) Provinces other than Quebec, Manitoba and Saskatchewan—16% of "BASIC TAX".

Province of

...% of "BASIC TAX"

TOTAL TAX PAYABLE \$

LESS:

TAX DEDUCTED PER T4 SLIPS . . . . . \$

INSTALMENT OR OTHER PAYMENTS . . . . .

PENALTY FOR LATE FILING (5% of tax unpaid at 30th

April, 1963—Maximum \$500) . . . . .

BALANCE—ENTER IN PROPER SPACE BELOW . . . . . \$

PAYMENT ATTACHED\*

BALANCE UNPAID

REFUND CLAIMED

\$

\$

OR

\$

\* PAYMENT—Attach cheque (exchange not required) or money order payable to the Receiver General of Canada to the face of this return. Do not mail cash. Postage stamps are not legal tender.

## Rates of Federal Income Tax

| Taxable Income   | Tax                        |          |
|------------------|----------------------------|----------|
| \$ 1,000 or less | 11%                        |          |
| 1,000            | 110 + 14% on next          | \$ 1,000 |
| 2,000            | 250 + 17% on next          | 1,000    |
| 3,000            | 420 + 19% on next          | 1,000    |
| 4,000            | 610 + 22% on next          | 2,000    |
| 6,000            | 1,050 + 26% on next        | 2,000    |
| 8,000            | 1,570 + 30% on next        | 2,000    |
| 10,000           | 2,170 + 35% on next        | 2,000    |
| 12,000           | 2,870 + 40% on next        | 3,000    |
| 15,000           | 4,070 + 45% on next        | 10,000   |
| 25,000           | 8,570 + 50% on next        | 15,000   |
| 40,000           | 16,070 + 55% on next       | 20,000   |
| 60,000           | 27,070 + 60% on next       | 30,000   |
| 90,000           | 45,070 + 65% on next       | 35,000   |
| 125,000          | 67,820 + 70% on next       | 100,000  |
| 225,000          | 137,820 + 75% on next      | 175,000  |
| 400,000          | 269,070 + 80% on remainder |          |



# Claim for Personal Exemptions

3

## ALL SPECIFIED DETAILS MUST BE PROVIDED FOR EACH EXEMPTION CLAIMED

• If this is wife's return, read "husband" for "wife".

• Income of your wife or dependants includes Old Age Security Pension or Assistance.

• No claim may be made for a child or other dependant whose income in 1962 was over \$950, except as noted below.\*

• If you are claiming dependants who did not reside in Canada, complete and attach form T1E-NR, which is obtainable at any District Taxation Office

BASIC EXEMPTION - - - - - CLAIM \$1000 \$

AGE EXEMPTION: If you were born in 1897 or earlier, - - - - - CLAIM \$500

MARRIED OR EQUIVALENT EXEMPTION - - - - - If applicable, check ☒ and claim ONLY ONE of these six items

Married on or before 31st December, 1962 and

☐ Supported in 1962 wife whose income in that year, while married, was NOT OVER \$250 - - - - - CLAIM \$1000

☐ Supported in 1962 wife whose income in that year, while married, was OVER \$250 but not over \$1250 - - - - - \$ 1 2 5 0

NOTE: If your wife's income while married was over \$1,250 in 1962, you may not claim either the married exemption above or the equivalent exemption below. Ince wife's income \$

Single, Divorced, Separated or Widow(er) in 1962 and CLAIM \$

☐ Supported a wholly dependent child under age 21 or any age if infirm or in full-time attendance at a school or university. Complete "DETAILS OF DEPENDANT" space<sup>(1)</sup> and CLAIM \$1000

☐ Supported a wholly dependent person related by blood, marriage or adoption and living in a dwelling maintained by you. Complete "DETAILS OF DEPENDANT" space<sup>(1)</sup> and CLAIM \$1000

☐ Supported, jointly with one or more other persons, in a dwelling maintained by you and such persons, a wholly dependent relative. (You may claim here ONLY if it has been agreed that no other person will claim for the same dependant or in respect of the same dwelling.) - - - - - Complete "DETAILS OF DEPENDANT" space<sup>(1)</sup> and CLAIM \$1000  
Also, state the name and address of each other person who contributed to support—

☐ An unmarried minister or clergyman in charge of a diocese, parish or congregation in 1962 who maintained a dwelling and employed therein a full-time servant - - - - - CLAIM \$1000

†DETAILS OF DEPENDANT (Name \_\_\_\_\_ Address \_\_\_\_\_)  
Income in 1962 \$ \_\_\_\_\_ Relationship to you \_\_\_\_\_  
If a child, state age and, if over 21, state school attended or whether infirm.

### EXEMPTION FOR WHOLLY DEPENDENT CHILDREN (including grandchildren)

Under age 21 or any age if in full-time attendance at a school or university or if infirm.

Provide details of children wholly dependent upon you in 1962 and claim \$300 for each child "qualified for Family Allowances" (generally, any child under 16—see Information Sheet) and \$550 for each child not so qualified. If any child under the age of 16 in December 1962 was not qualified for Family Allowances, state the reason.

| Name of child (Attach list if space insufficient) | Relationship to you | Income in 1962 | Age in 1962 | If over 21 in 1962 state school attended or whether infirm |
|---------------------------------------------------|---------------------|----------------|-------------|------------------------------------------------------------|
|                                                   |                     | \$             |             |                                                            |
|                                                   |                     |                |             |                                                            |
|                                                   |                     |                |             |                                                            |
|                                                   |                     |                |             |                                                            |
|                                                   |                     |                |             |                                                            |
|                                                   |                     |                |             |                                                            |
|                                                   |                     |                |             |                                                            |

If you have claimed an exemption of \$1000 on account of a wholly dependent child you MAY NOT claim for that child here unless you supported the child in a dwelling wherein you employed a full-time servant. If you did, state servant's name here.

### EXEMPTION FOR OTHER DEPENDANTS—PARENTS, GRANDPARENTS, BROTHERS OR SISTERS (including in-laws)

Provide details below and claim actual amount spent in 1962 in support of each dependant (not exceeding the allowable maximum of \$300 if the dependant was qualified for Family Allowances or \$550 if the dependant was not so qualified). If any other person has also contributed to the support of a dependant listed here, the combined amount claimed by you and such other person must not exceed the maximum of \$300 or \$550 mentioned above. No claim may be made here for a dependant over age 21 who is not mentally or physically infirm, or for a dependant in respect of whom you have claimed an exemption of \$1000.

| Dependant's Name and Address | Relationship to you | Income in 1962 | Age in 1962 | Amount spent by you in support of dependant | If over 21, state whether infirm |
|------------------------------|---------------------|----------------|-------------|---------------------------------------------|----------------------------------|
|                              |                     | \$             |             | \$                                          |                                  |
|                              |                     |                |             |                                             |                                  |
|                              |                     |                |             |                                             |                                  |
|                              |                     |                |             |                                             |                                  |

TOTAL PERSONAL EXEMPTIONS—ENTER ON PAGE 2 \$

\* If it is to your advantage, you may claim an exemption for a child or other dependant whose income in 1962 exceeded \$950 but the amount by which such income exceeded \$950 must then be added to your own tax as a Tax Adjustment on page 2.

## Investment Income

• Attach your information slips.

• If space below is insufficient attach statements.

### CANADIAN INVESTMENT INCOME

BROUGHT FORWARD \$

#### BOND INTEREST

#### OTHER INTEREST

Bank Deposits

Mortgages, Notes and Other Securities, received from:

#### ROYALTIES

ALL OTHER CANADIAN INVESTMENT INCOME

DEDUCTIONS NOT CLAIMED ABOVE (Specify)

TOTAL \$

### DIVIDENDS—Include amounts credited through banks, trust companies and brokers.

From Taxable Canadian Corporations

| Dependant's Name and Address | Relationship to you | Income in 1962 | Age in 1962 | Amount spent by you in support of dependant | If over 21, state whether infirm |
|------------------------------|---------------------|----------------|-------------|---------------------------------------------|----------------------------------|
|                              |                     | \$             |             | \$                                          |                                  |
|                              |                     |                |             |                                             |                                  |
|                              |                     |                |             |                                             |                                  |
|                              |                     |                |             |                                             |                                  |

Total Depletion \$  
Carrying Charges \$  
Total Deductions from above Dividends \$

NET \$

From Other Canadian Corporations—Carrying charges on these dividends may be claimed in next column.

ANNUITIES—Taxable Portion only of Annuity Income  
Name of Issuer \_\_\_\_\_ Policy Number \_\_\_\_\_

ESTATES AND TRUSTS—Amount received or receivable  
Estate or Trust \_\_\_\_\_

CARRIED FORWARD \$

TOTAL CANADIAN INVESTMENT INCOME \$

FOREIGN INVESTMENT INCOME :

INVESTMENT INCOME—ENTER ON PAGE 2 \$

† See T1 General Information Sheet.





for the period \_\_\_\_\_ 19\_\_\_\_ to \_\_\_\_\_ 19\_\_\_\_

- Persons engaged in a Professional Practice, Commission Salesmen and others except Farmers and Fishermen who are entitled to use and who are using the "cash" method of computing income, must complete this statement or attach a Profit and Loss statement in equivalent detail.
- Farmers and Fishermen will use the Statement of Income and Expenses in the Farmer's and Fisherman's Guide for 1962.
- Persons whose business includes the buying and selling of merchandise are not entitled to use the "cash" method of computing income. Such persons and others not using the "cash" method **MUST ATTACH A PROFIT AND LOSS STATEMENT AND A BALANCE SHEET.**
- Include the Total Income and Expenses of a Partnership.
  - A separate statement is required for each business.

## INCOME

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting, Legal, Collection . . . \$ .....<br>Advertising, Promotion . . . .....<br>Automobile Expenses (Gasoline, insurance, repairs) . . . .....<br>Business Tax, Fees, Licenses . . . .....<br>Cleaning, Laundry, Uniforms . . . .....<br>Convention Expenses (Provide details) . . . .....<br>Delivery, Express, Freight . . . .....<br>Fire and Liability Insurance . . . .....<br>Interest, Exchange, Bank Charges . . . .....<br>Maintenance and Repairs (Except automobile and truck)<br>Office Expenses, Postage, Stationery . . . .....<br>Property Taxes . . . .....<br>Rent . . . .....<br>Salaries, Wages, Allowances, Bonuses . . . .....<br>Supplies, Materials . . . .....<br>Telephone, Light, Heat, Water . . . .....<br>Travelling Expenses (Except automobile) . . . .....<br>Truck Expenses (Gasoline, insurance, repairs) . . . .....<br>Unemployment Insurance, Workmen's Compensation . . . .....<br>Other Expenses (Specify) _____<br><br>Add: Capital Cost Allowance (See below) . . . .....<br><b>TOTAL EXPENSES (Deduct from TOTAL INCOME)</b> . . . \$ ..... | <div style="text-align: right; margin-bottom: 10px;"><b>INCOME</b></div> Professional Fees . . . . . \$ .....<br><br>Commissions and Allowances . . . . . .....<br><br>Sales . . . . . .....<br><br>Rental Revenue from Business Property . . . . . .....<br><br>Other Income (Specify) _____<br>_____<br>_____<br><br><b>TOTAL INCOME</b> . . . . . \$ .....<br><br>→ <b>LESS TOTAL EXPENSES</b> . . . . . .....<br><b>EXCESS OF INCOME OVER EXPENSES (Enter below)</b> \$ ..... |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### Adjustments to Income

## EXCESS OF INCOME OVER EXPENSES

(From above or from attached Profit and Loss statement. If Partnership, enter only your share \_\_\_\_\_%)

- Add (a) your own salary or wages and interest on capital if included in expenses .....  
 (b) non-allowable expenses such as donations (deductible on Page 2), salary or wages to wife (husband) .....  
 (c) cost of goods taken from stock or saleable products consumed in your home .....  
 (d) personal or non-business portion of automobile or other expenses included above .....

NET INCOME FROM BUSINESS, PROFESSION, COMMISSIONS (Enter on Page 2) \$

## Real Estate Rentals

• If space below is insufficient attach statement.

## EXPENSES

### GROSS RENTS

|                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Taxes (Property) . . . . . \$ .....</p> <p>Maintenance and Repairs . . . . . .....</p> <p>Interest . . . . . .....</p> <p>Insurance . . . . . .....</p> <p>Other (Specify) .....</p> <p>Total Expenses . . . . . \$ .....</p> <p>Less: Portion applicable to personal residence . . . . . .....</p> <p>..... \$ .....</p> <p>Add: Capital Cost Allowance* . . . . . .....</p> <p>Expenses (Deduct from Total Rents) . . . . . \$ .....</p> | <p>Address of Property .....</p> <p>..... \$ .....</p> <p>..... .....</p> <p>..... .....</p> <p>..... .....</p> <p>Total Rents . . . . . \$ .....</p> <p>Less Expenses .....</p> <p>→ NET INCOME FROM REAL ESTATE (Enter on Page 2) \$ .....</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

\*Do not claim Capital Cost Allowance for any property, or the portion thereof, in which you reside.

### Capital Cost Allowance

- The method of claiming Capital Cost Allowance as prescribed under Part XI of the Income Tax Regulations must be followed unless the claim is in respect of property used in farming or fishing where normally the method prescribed under Part XVII of the Regulations may be followed. See Farmer's and Fisherman's Guide for 1962.
- PART XVII METHOD**—If the method prescribed under Part XVII of the Regulations is followed, do not use the schedule below, but instead complete the schedule in the Farmer's and Fisherman's Guide for 1962 and attach one copy to this return.
- PART XI METHOD**—When claiming Capital Cost Allowance in accordance with Part XI of the Regulations, refer to the TI General Information Sheet for information with regard to classes of assets, maximum rates, recapture, etc., and complete the schedule below in accordance with the following notes:
- Use a separate line for each prescribed class of property.
  - Do not include the cost of land in column (3).
  - The amount to be included in column (4) in respect of any asset disposed of should not exceed the "Capital Cost" of the asset.
  - Attach statements giving details of the amounts entered in columns (3) and (4) including the kind of asset, and the cost or the proceeds of disposal, as the case may be.
  - Enter in column (6) the rate you wish to use not exceeding the maximum rate prescribed under Part XI.

[illegible]







ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

SUBMISSION TO

THE ROYAL COMMISSION ON TAXATION

BY THE

CANADIAN ASSOCIATION OF UNIVERSITY TEACHERS

77 METCALFE STREET, OTTAWA

SUMMARY OF RECOMMENDATIONS

1. The surest way to protect the university teacher from the inequities to which he is at present subject, is to make provision in the Income Tax Act for recognition of his full-time university status as being that of a professional man practising his profession. It is recommended that this should be done by expanding the significance of "business" in section 139 (1)(E) to cover specifically the case of the university lecturer employed in an university just as, in the United States, it may include the performance of services by an employee.

2. Alternatively, a further subsection or subsections should be added in addition to section 11(10) of the Income Tax Act, to authorise the following deductions from income for expenses incurred by a university teacher in the practice of his profession as a teacher employed by a university:

1. Subscriptions to professional journals
2. Subscriptions to Learned Societies
3. Costs of robes, gowns and lab. coats
4. Costs of books purchased
5. Costs of attending meetings of Learned Societies
6. Costs of research work not reimbursed
7. Costs of summer school refresher courses





8. Costs of sabbatical leave connected with the teaching subject.

9. Costs of study in the university teacher's residence, as essential to proper performance of his professional duties.

10. Costs of travel and extra living expenses, through summer employment as visiting professor for teaching or research in another university.

#### The Object of this Submission

1. It is the purpose of this submission to show how the Canadian Income Tax Act at present discriminates most unfairly against university teachers, by preventing them from deducting from their incomes, for tax purposes, expenses which they necessarily incur in practising their profession as university employees. In their unique professional circumstances as employees, the essence of their activities is the maintenance of their scholarship.

#### The Restrictive Provisions of the Act

2. Sec. 12 (1)(a) of the Canadian Income Tax Act prohibits deduction of any outlay or expenses, in computing income, "except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer".

Sec. 12 (1)(h) of the Act specifically prohibits deduction of personal or living expenses "except travelling expenses" (including the entire amount expended





1 for meals and lodging) incurred by the taxpayer while  
2 away from home in the course of carrying on his business".

3  
4 The Meaning of "Business"

5 Since the term "business" in Sec. 139 (1)(e) of  
6 the Act "includes a profession . . . but does not include  
7 an office or employment", the stated provisions prevent  
8 deduction of expenses by employed persons, in the absence  
9 of specific provision. In the case of annual professional  
10 membership dues, under Sec. 11(10)(a), and the items in  
11 the other paragraphs of that subsection, there is such  
12 specific provision. It may be noted that, in the United  
13 States, the term "business", for the purposes of determin-  
14 ing all the ordinary and necessary expenses incurred in  
15 a business operation, includes the performance of services  
16 as an employee, (U.S. Treasury Dept. letter Jan. 2, 1963,  
17 Exhibit A). A necessary expense is one which is  
18 appropriate and helpful in developing and maintaining the  
19 business (Internal Revenue Services Document No. 5051,  
20 "Business Expenses", page 2).

21 4. Such an interpretation of a business or pro-  
22 fessional expense in Canada, with specific reference to  
23 university teachers, would be entirely in line with what  
24 is to be argued in this submission.

25  
26 The University Teacher's Special Position.

27 5. The University teacher is a highly qualified,  
28 skilled professional man, who has undergone years of  
29 training and study for his chosen career. Normally a man  
30 skilled in his profession has two courses open to him:





(1) He may practice his profession independently or in partnership with others, as in the case of doctors, lawyers, engineers, chartered accountants; or

(2) He may take employment, using his professional skill in the service of his employer.

Thus a doctor or surgeon may be employed by a hospital, or a lawyer or chartered accountant or engineer may be employed by an industrial concern.

6. The prospective university teacher has no such choice available to him, unless he happens to be qualified in one of the so-called "professional" subjects such as those just stated -- medicine, law, engineering, chartered accountancy. A professor of English or History or the Classics can practice his profession only by taking employment in a University. He cannot run a university either on his own or in partnership. He may, from time to time, write books and thus earn some non-employment income, but in general most of his income will come from his employment.

The Practice of his Profession by the University Teacher.

7. The fundamental question is whether a full-time university teacher, who has dedicated himself to teaching and research as a member of a university faculty, is actually carrying on his profession when he is paid a fixed salary by his university employer.

8. The distinguishing characteristic of practice in a profession is the exercise of personal skills in







1 "some branch of learning or science" (Concise Oxford  
2 Dictionary). The practicing professional man must have  
3 autonomy; he must be able to make his own decisions  
4 without being subject to the dictates of an employer. He  
5 must carry full professional responsibility for those  
6 decisions for, by his academic qualifications, he holds  
7 himself out as possessing the skills required for the  
8 subject he teaches.

9 9. It is the possession of these qualities that  
10 distinguishes the university teacher from other employees.  
11 The university as employer does not fit into the classi-  
12 fication of "master" in the normal relation of master and  
13 servant. It does not employ its academic staff for any  
14 profit-making end. It exists simply to enable highly  
15 skilled professional men, who individually have no means  
16 of imparting their knowledge, to join together in  
17 faculties in the cause of education. Through his  
18 particular faculty the university teacher makes his own  
19 academic decisions and, in co-operation with his colleagues,  
20 exercises that autonomy which distinguishes him as a  
21 practising professional man. Even the junior university  
22 teacher has a position comparable with that of a junior  
23 partner in a professional firm, contributing to decision-  
24 making in association with his colleagues.

25 10. The distinction is obvious when it is realised  
26 that the governing body, the university teacher's legal  
27 employer, is made up very largely of laymen and has no  
28 responsibility for academic decisions. It exists to  
29 provide the administrative facilities which make possible  
30 the carrying out of the university's academic purposes,





1 through its various faculties.

2  
3 The Costs to the University Teacher of his Academic Practice

4 Throughout his academic career the university  
5 teacher is constantly making decisions and taking actions  
6 which will cost him money for which he will not be re-  
7 imbursement. If he does not incur the cost, it is true that  
8 he will most probably still retain his teaching position.  
9 But there are obviously many different qualities of  
10 teacher and, like the professional man in other practices,  
11 the truly dedicated university teacher may be expected  
12 to incur those costs which he considers necessary for his  
13 academic work.

14 12. Any expense which will keep the university  
15 teacher in touch with others in the same or related  
16 academic fields, or which will enable him to keep abreast  
17 of changing conditions, is an expense incurred in the  
18 practice of his profession. He will probably not be  
19 reimbursed for this expense, for it is here that his  
20 position differs from that of the normal employee.  
21 Without any specific mention in his contract of employment,  
22 he is expected to incur the costs of keeping himself  
23 efficient, and to make his own decisions as to what those  
24 costs should be.

25  
26 Principle Recognized by the Special Provisions of Sec.  
27 11 (10) of the Income Tax Act.

28 13. It is for this reason, no doubt, that the  
29 special concession of Sec. 11(10)(a), as to annual pro-  
30 fessional membership dues, was added to the Income Tax





1 Act in 1952, with the further removal, in 1957, of the  
2 requirement of specification in the contract of employment.  
3 This concedes the whole truth of what has been argued,  
4 but to restrict the deduction to professional membership  
5 dues is to ignore many costs which should, on the same  
6 grounds, be equally deductible.

7 14. Before 1951 it was not possible for a university  
8 teacher who was, say, a doctor, lawyer, engineer, or  
9 chartered accountant, to claim any deduction for his  
10 annual professional dues, unless he earned income in  
11 practice from sources other than his university employment.  
12 These dues are now specifically deductible, but not the  
13 following comparable expenses connected with the taxpayer's  
14 specification.

- 15 (1) Subscriptions to professional journals;
- 16 (2) Subscriptions to Learned Societies;
- 17 (3) Costs of robes, gowns, lab coats;
- 18 (4) Costs of books purchased;
- 19 (5) Costs of attending meetings of Learned  
20 Societies;
- 21 (6) Costs of research work not reimbursed;
- 22 (7) Costs of summer school refresher courses;
- 23 (8) Sabbatical leave.

24 15. It is because they are annually incurring these  
25 expenses, knowing that they can expect no reimbursement  
26 from the University, that many University teachers con-  
27 stantly raise with the Association the question of  
28 deductibility for Income Tax purposes. They are contin-  
29 ually being reminded that these expenses are consuming  
30 money which should logically be retained for payment of





1 the income tax itself.

2 16. Any employer who reimbursed such expenses for  
3 an employee would be allowed to deduct them for income tax  
4 purposes. There can be no equity in a situation which  
5 requires the university teacher to pay tax on income which  
6 he has already properly spent in carrying out his task as  
7 an efficient teacher.

8  
9 Precedents for Deductibility in other Countries.

10 17. Some, at least, of the stated expenses are given  
11 special consideration in other countries. They may be  
12 listed as follows:





| <u>Expense</u>                                                                                                                                 | <u>United Kingdom</u>                                                                                                                                   | <u>United States</u>                                                                                                                      | <u>Australia</u>                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Subscriptions for periodicals, reports, of bulletins and such publications, relating to the subjects of the taxpayer's lectures or research | Allowed as part of Learned Societies, for professional literature on subjects of lectures or research. (Letter from Inland Revenue 10-12-62, Exhibit B) | Subscriptions to educational journals allowed to teachers (Letter, U. S. Treasury Dept., 2-1-63 Exhibit A)                                | Deductible to a maximum, with subscriptions to Learned Societies, of £ 10-10/- (Reported in "Vestees" The Australia Universities Review, July, 1959) |
| 2. Subscription to Association of University Teachers.                                                                                         | Two-thirds of the annual subscriptions to the central (not local) body is deductible.                                                                   | Deduction is presumably allowed as a membership due in a professional society. (I.R.S. Document No. 5014, p. 5).                          | Subscriptions to professional Learned Societies are allowed.                                                                                         |
| 3. Robes, gowns, lab coats.                                                                                                                    | Costs of maintaining and replacing are deductible, but not initial cost, (Exhibit B)                                                                    | Both cost and maintenance are deductible, since this is work-clothing not adaptable to general or continued usage so as to take the place | Depreciation of 7½% per annum, diminishing balance basis. (Letter from "Vestees" 10-1-63. Exhibit C)                                                 |





ExpensesUnited KingdomUnited StatesAustralia

## 4. Library books.

Where used for lectures or research a deduction of not more than "cost less second-hand value" may be claimed. No deduction where the capital outlay is for maintenance of the teacher's knowledge and qualifications (Assn. of University Teachers, C72a, Oct. 1959, and Exhibit B)

Cost of professional books bought for use in professional work is a depreciable capital balance basis, allowed on current value of a technical library used for lectures and research (Exhibit C)

Depreciation at 7½% per annum on diminishing

Document No. 5014 p. 5)

of ordinary clothing (I.R.S. 5014 p. 5)

## 5. Attending conventions and meetings of Learned Societies.

Not normally deductible

Expenses of travelling and meals and lodging costs of attending teachers' conventions are deductible if not reimbursed (Exhibit A)

Not normally deductible.





| <u>Expenses</u> | <u>United Kingdom</u>                                                                                                                                                                                                                                                                       | <u>United States</u>                                                                                                                                                                                                  | <u>Australia</u>         |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 6. Research     | It is recognised that university teachers are normally under some obligation to engage in research-within discretion of individual teacher. Deductions are then allowed in principle for such expense directly related to the teacher's subject, moderate and not reimbursable (Exhibit B). | Deductible if considered necessary. Recent decision that research is not 'necessary' for tenured faculty members is under appeal, supported by American Assn. of University Teachers. (Letter from Asn. Jan. 4, 1963) | Not normally deductible. |

## 7. Summer School

recreational courses

Sec. 1162-5 of Income Tax Regulations

(a) Expenditures made by tax payer for his education are deductible if they are for education,





Expenses  
7 (continued)

United Kingdom

United States

Australia

(including research ac-

tivities) undertaken

primarily for

(1) maintaining or improving

skills required in employ-

ment . . . or

(2) meeting the express

requirements of the

employer".

If it is customary for

other established members

...the tax payer will

ordinarily be considered to

have undertaken this edu-

cation for the purpose

in (1)

Expenses in (2) are deduct-

ible, to the extent that they

(continued)



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ExpensesUnited  
Kingdom

## 7 (continued)

United  
StatesAustralia

## 8. Sabbatical leave

are for the maximum education required by employer or by applicable law and regulations, as a condition of retention of salary, status or employment. Not deductible if for obtaining a new position or substantial advancement. (Exhibit A I. R. S. Document No. 5051, p. 4)

Where teachers are required by school board, and in order to maintain their position, to travel on sabbatical leave and report to the board, the travelling expenses may be deducted from any compensation received while on leave performance of academic work (Exhibit A)

Personal expenses of sabbatical leave may be set off by a university teacher as a necessary academic expense against his income during the period of leave, on grounds of necessity for work (Exhibit C)







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14

Expenses

United  
Kingdom

United  
States

Australia

8. Sabbatical leave  
(continued)

These expenses include overseas  
travelling expenses, both accommo-  
dation and transport ("Vestee"  
July 1959).

(continued)





Costs of Study in Taxpayer's Residence

18. In the United Kingdom one of the concessions gained for university teachers by the Association of University Teachers, through its submission, some years ago, to the Royal Commission on the Taxation of Profits and Income, relates to the costs of a study in the teacher's own residence. If he can show the necessity for the use of such a room, in the performance of his duties, he may claim a deduction from his employment income for a reasonable portion of the rent (or annual value) and rates applicable to the room, and for the incidental cost of lighting, cleaning, heating, etc. The amount of the deduction will depend on the extent of use of the room in the performance of the teacher's duties and for other purposes, respectively. (Association of University Teachers, C 72a, October, 1959, Exhibit D).

19. A Canadian case on this exact issue was English v. M.N.R. 56 DTC 267, in which the Income Tax Appeal Board refused any such deduction by a university professor from his employment income.

20. The decision in the United Kingdom is clearly a concession to the special circumstances of a university teacher. Its acceptance would seem to admit the justice of allowing deduction of the other expenses already reviewed, because of the special professional character of university teaching. It cannot be equitable that a university teacher should not be allowed to deduct these expenses from his employment income, but only from any non-employment income which he may earn in the taxation year.





1 An Outstanding Case of Inequity: Costs of Travel and Extra  
2 Living Expenses through Summer employment.

3 21. University lecturers have, from time to time,  
4 appealed to this Association in circumstances where they  
5 have been so penalized, through their inability to recoup  
6 travelling expenses from the directly relevant remuneration,  
7 that the results have been grossly inequitable, however  
8 legal the interpretation of the Income Tax Department  
9 may have been. A constantly recurring example is that of  
10 the university teacher appointed by a university as a  
11 visiting professor in its summer school.

12 22. In one outstanding but typical case, a Professor  
13 of History on the staff of Memorial University of Newfound-  
14 land took employment during the summer with the University  
15 of Saskatchewan, for just one month, receiving \$450  
16 remuneration. His actual expenses of getting to Saskat-  
17 chewan and living there were \$381. Of this amount \$157  
18 was the cost of meals and may properly be classed as  
19 personal expenses. The remaining \$224 was the cost of  
20 travelling, plus rent which duplicated the living costs  
21 of the visiting professor's home in St. John's. At most,  
22 then, his net income for a month's summer lecturing was  
23 \$226. Yet, he was required to pay \$170 income tax based  
24 on the whole \$450., after the circumstances had been  
25 fully reviewed and taken up with the Income Tax Department  
26 in Ottawa.

27 23. Here the travelling expenses were incurred  
28 solely for the purpose of earning the extra income and  
29 returning to the place of normal employment. To treat  
30 them as initial costs of getting to the place of employ-







1 ment under a normal "master and servant" contract, re-  
2 gardless of the length of the contract, is to ignore, as  
3 being personal expenses, a cost which cancels a very  
4 large part of the income, whatever the legal position.  
5 This cannot possibly be equitable.

6 24. It would be simple, and wholly equitable, to  
7 make special provision in the Act for deduction of the  
8 travelling and duplicated living expenses, in these  
9 particular circumstances. If such a professional teaching  
10 contract were defined by the Act as satisfying the  
11 definition of "business", as in the United States, the  
12 expenses would become deductible and the demands of equity  
13 would be satisfied. The alternative seems to be an  
14 addition to Sec. 11 of the Act, as in the case of  
15 subsection (10), making specific provision for deduction  
16 of these expenses incurred by professional teachers.

17 25. Nothing will persuade the professional university  
18 teacher, in a case such as this, that he is being given  
19 fair recognition, as a professional man, for tax purposes.  
20 By undertaking such summer lecturing or research away  
21 from his own campus, the university teacher gains that  
22 broad experience which he needs, and the taking of such  
23 assignments is encouraged by his own university. He  
24 should not be penalized financially in the process of  
25 improving his worth to the university.

26  
27 The device of Specialized Conditions in the summer Employ-  
28 ment Contract.

29 26. It may be argued that the university lecturer  
30 has an easy means of avoiding the disallowance of travell-





1 ing and living costs. In the employment agreement the  
2 agreement the university may identify as a refund of  
3 expenses a portion of the payment to the university  
4 teacher, equal to the travelling and living expenses.  
5 Then, in the case of the travelling expenses, at least,  
6 the summer school's payment for such expenses may be  
7 specifically shown to be a refund of expenses already  
8 incurred.

9 27. Even if this is possible, however, it is not  
10 equitable to require the university lecturer to ask for  
11 such a splitting of his fees to take place. If the  
12 expenses can be claimed for deduction in the one case,  
13 then provision for such deduction should be authorized by  
14 the Act without any specific agreement in the employment  
15 contract.

16 28. In any case, in the absence of some specific  
17 provision in the Act, there would seem to be some doubt  
18 whether travelling expenses refunded by the summer school  
19 university can legally avoid being taxed, in the univer-  
20 sity lecturer's hands. For it may be said to be income,  
21 in terms of Sec. 5 (1) of the Act, received either as a  
22 benefit in the year by virtue of the employment, under  
23 Sec. 5 (1)(a), or specifically as an allowance for  
24 personal or living expenses, under Sec. 5 (1)(b).

25

26 The addition of Sec. 5(2) to the Act: Construction Workers.

27 29. An example of specific provision in the Act to  
28 put right an obviously comparable inequity, due to  
29 unusual circumstances, is that which authorizes exclusion,  
30 in spite of Sec. 5(1), of the board and lodging costs





1 incurred by a construction worker and refunded by his  
2 employer, together with expenses of transport from his  
3 ordinary place of residence to the construction site. Here  
4 there can be no doubt of the "master and servant" relation-  
5 ship, and the university teacher's claim for deduction, on  
6 the grounds of his professional practice, has so much the  
7 more validity. No mention of any condition as to duplica-  
8 tion of board and lodging costs is made, in the construc-  
9 tion worker's case. The university teacher should be able  
10 to claim such deduction, at least where he can show that  
11 the living costs are duplicated.

12  
13 Conclusion

14 30. It is urged that the simplest way to protect  
15 the university teacher from the obvious inequities to which  
16 he is subject is to make provision, in the Act, for  
17 recognition of his full-time university status as that of  
18 a professional man practising his profession. This would  
19 make unnecessary the addition of specific details to the  
20 Act, such as those for construction workers under Sec. 5(2).

21 31. The significance of the word "business" in  
22 Sec. 139 (1)(e) might be extended to cover specifically  
23 the case of the university lecturer employed in a university  
24 just as, in the United States, it may include the  
25 performance of services by an employee.

26 32. If this cannot be done, then a further subsection  
27 or subsections should be added to Sec. 11, to authorise  
28 the various deductions specified in paragraphs (1) to (18)  
29 of this brief. As things are, the professional university  
30 teacher has a constant sense of grievance, when he





1 compares his position, as he practices his profession by  
2 the only means possible to him, with that of other practic-  
3 ing professional men.  
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EXHIBIT A

U.S. TREASURY DEPARTMENT

Internal Revenue Service

Office of International Operations

Washington 25, D. C., USA

In reply refer to:

CP:IO:A.R;EC

Professor Kenneth F. Byrd

Purvis Hall, 1020 Pine Avenue West

McGill University

Montreal, Quebec, Canada

Dear Professor Byrd:

This refers to your letter requesting information about the deductibility of various expenses incurred by university professors.

Under the provisions of the Internal Revenue Code a taxpayer who is engaged in business is allowed to deduct all the ordinary and necessary expenses incurred in the operation of that business. The term "business" for this purpose includes a profession or performance of services as an employee.

Section 162 of the Code provides that "In General, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable years in carrying on any trade or business, including --

"(1) a reasonable allowance for salaries or other compensation for personal services actually rendered;

"(2) traveling expenses (including the entire amount expended for meals and lodging) while away from





1 home in the pursuit of a trade or business; \*\*\*

2 Section 212 of the Code which relates to personal, living,  
3 and family expenses provides that in computing taxable  
4 income, no deduction shall be allowed, except as other-  
5 wise expressly provided in Chapter 1 of the Code for  
6 personal, living, and family expenses.

7 Teachers may deduct dues to professional  
8 societies, subscriptions for educational journals, and  
9 expenses of traveling and meals and lodging incurred in  
10 attending teachers' conventions in this country, if they  
11 are not reimbursed for these expenses. Records must be  
12 kept to substantiate the deductions. Cost of professional  
13 books purchased for use in connection with their profes-  
14 sional work is a depreciable capital expenditure. The  
15 cost of university robes and gowns and laboratory coats  
16 may be deducted.

17 Travel expenses incurred by teachers on sabbati-  
18 cal leave from their schools, who receive compensation  
19 while on leave may deduct (Sic) their travel expenses if  
20 the travel was required by the school board and if they  
21 are required to report to the school relative to their  
22 travel. These expenses are not deductible if the travel  
23 and study are not required by the school in order to  
24 maintain the position.

25 The cost of clerical assistance is deductible  
26 if the professor can show that the assistance is necessary  
27 and that the expense is not paid by his employer. If a  
28 professor is provided an office or office space, it would  
29 be a rare instance when an office in his residence would  
30 also be required. In general, if the university provides





1 an office the expense of an office in a professor's  
2 residence would be disallowed in the examination of a  
3 return on which the deduction was claimed.

4 Section 1.162-5 of the income tax regulations  
5 provide that "(a) Expenditures made by a taxpayer for his  
6 education are deductible if they are for education  
7 (including research activities) undertaken primarily for  
8 the purpose of:

9 "(1) Maintaining or improving skills required  
10 by the taxpayer in his employment or other trade or  
11 business, or

12 "(2) Meeting the express requirements of a tax-  
13 payer's employer, or the requirements of applicable law or  
14 regulations, imposed as a condition to the retention by  
15 the taxpayer of his salary, status, or employment".

16 Whether or not education is of the type referred  
17 to in subparagraph (1) above shall be determined upon the  
18 basis of all the facts of each case. If it is customary  
19 for other established members of the taxpayer's trade or  
20 business to undertake such education the taxpayer will  
21 ordinarily be considered to have undertaken this education  
22 for the purpose described in (1) of the paragraph.

23 Expenses for education described in (2) are deductible  
24 only to the extent that they are for the minimum education  
25 required by the employer, or by applicable law or  
26 regulations, as a condition to the retention of the tax-  
27 payer's salary, status, or employment.

28 Expenditures made by a professor for his  
29 education are not deductible if they are for the purpose  
30 of obtaining a new position or substantial advancement





1 in position, or primarily for the purpose of fulfilling  
2 the general education aspirations or other personal  
3 purposes of the taxpayer.

4 We are enclosing some pamphlets which may be of  
5 value to you.

6 Very truly yours,

7 C. I. Fox

8 Director of International Operations.  
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EXHIBIT "B"

1  
2 AIRMAIL Inland Revenue  
3 Chief Inspector  
4 Kenneth F. Byrd, Esq. Taxes Branch  
5 Professor of Accounting New Wing, Somerset House  
6 McGill University London, W.C. 2  
7 Montreal 2, P. Q. 10 December, 1962

8 Dear Sir:

9 I have your letter of 22nd November, 1962. It  
10 covers a wide field but I trust the following information  
11 will assist you.

12 Professors and lecturers at universities hold  
13 offices or employments, the income from which is assess-  
14 able in the United Kingdom under Schedule E. To be ad-  
15 missible as a deduction in arriving at the emoluments  
16 assessable under this Schedule an expense must come within  
17 paragraph 7 of the Ninth Schedule, I.T.A. 1952 which reads  
18 as follows:-

19 "If the holder of any office or employment of  
20 profit is necessarily obliged to incur and de-  
21 fray out of the emoluments thereof the expenses  
22 of travelling in the performance of the duties  
23 of the office or employment, or of keeping and  
24 maintaining a horse to enable him to perform  
25 the same, or otherwise to expend money wholly,  
26 exclusively and necessarily in the performance  
27 of the said duties, there may be deducted from  
28 the emoluments to be assessed the expenses so  
29 necessarily incurred and defrayed".

30 In brief, before a man can claim an expense as





1 a deduction he must show that he is necessarily obliged  
2 to incur it and that it is incurred in the performance  
3 of his duties. The scope for deductions is, therefore,  
4 very limited and the Courts have consistently supported  
5 a strict interpretation of the terms of the paragraph.

6 However, it is recognized that if a university  
7 teacher is to fulfil his duties adequately he may incur  
8 expenditure in respect of which a claim under paragraph  
9 7 is justified. I think the points to which you  
10 specifically refer are all covered in the summary below  
11 which sets out our normal approach to university teachers.

12 (1) Robes and Gowns

13 Where the wearing of these is customary the cost of  
14 maintaining and replacing them, but not the initial  
15 cost of providing them, would be allowed.

16 (2) Laboratory Coats

17 If the university did not supply these itself, the  
18 cost of maintenance and replacement would be allowed  
19 to teachers whose duties necessitate their use.

20 (3) Study Allowance

21 Where the facilities provided by the university are  
22 inadequate and it is necessary for the teacher to  
23 use a room at his residence in the performance of  
24 his duties a reasonable deduction is allowed for rent,  
25 or annual value, and rates applicable to the part  
26 of the residence so used and for the incidental cost  
27 of lighting, heating and cleaning, etc.

28 (4) Research

29 It is recognized that university teachers are norm-  
30 ally under some obligation to engage in research in





1 in their subjects, but the nature and extent of the  
2 research is within the discretion of the individual  
3 teacher. Where there is an obligation to engage in  
4 research we are prepared to agree deductions in  
5 principle for research expenses which are directly  
6 related to the teacher's subject, and are moderate  
7 in amount, and in respect of which reimbursement is  
8 not available.

9 (5) Books

10 No deduction is allowed for depreciation of a teacher's  
11 library as such, but one may be allowed in respect of  
12 purchases where it is clear that the books are used by  
13 the teacher in the performance of his duties (i.e. if  
14 they are used in the preparation of lectures or in  
15 the course of research). No deduction is allowed  
16 for expenditure on books which is in the nature of  
17 capital outlay or which is incurred for the general  
18 maintenance of teachers' knowledge and qualifications.  
19 Where a deduction is allowed it is restricted to the  
20 cost of the books less their secondhand value.

21 (6) Summer Schools, Refresher Course, etc.

22 Expenses incurred to maintain professional competence  
23 and to keep abreast of current trends of thought are  
24 outside the scope of paragraph 7; therefore, the  
25 expenses of attending summer schools, refresher  
26 courses, meetings of learned societies, conferences,  
27 etc. are normally inadmissible. Where a teacher  
28 attends a conference in an official capacity, e.g.  
29 to read a paper, his expenses are usually reimbursed.

30 (7) Clerical Expenses





1 The expense of clerical assistance would not normally  
2 be regarded as necessarily incurred in the performance  
3 of a university teacher's duties; some deduction  
4 might be allowed under (4) above - Research - for the  
5 typing of articles for publication, etc.

6 (8) Subscriptions for Learned Societies

7 Where the activities of a Society are relevant to the  
8 teacher's office or employment a deduction may be  
9 given under Section 16, Finance Act 1958 in respect  
10 of subscriptions to it provided the Society has been  
11 approved by the Board of Inland Revenue for the  
12 purpose of the Section. Frequently a subscription  
13 entitles the member to copies of the Society's  
14 periodicals and bulletins.

15 (9) Sabbatical Leave

16 It is a little difficult to generalize on the expenses  
17 incurred by a professor on sabbatical leave or under-  
18 taking summer school lecturing as no doubt the terms  
19 on which they are engaged vary. Any expense in  
20 respect of such work could not be deducted from the  
21 income of his main post, but if in effect he took a  
22 separate one the income from which is assessable  
23 Schedule E, then again he could deduct from the  
24 emoluments of that post those expenses within para-  
25 graph 7. The cost of travelling between his main  
26 place of work and the other university would not be  
27 admissible nor would the cost of living away from  
28 home.

29 Generally, the view is taken that the salary of  
30 a university teacher is his remuneration for the work he







1 does. It is more or less standardized without regard to  
2 possible variations in expenditure and it is, therefore,  
3 a reasonable inference that an individual teacher is not  
4 expected to use a substantial part of his salary to pay  
5 for research, books, etc. Expenditure which is not modest  
6 in amount, therefore, is considered to be not necessarily  
7 incurred and not within paragraph 7.

8           Of course, in addition to holding offices or  
9 posts at a university many teachers exercise a profession  
10 the income of which is assessable Schedule D. For  
11 instance, many write books and articles, appear on tele-  
12 vision, speak on the radio, etc. In computing the profit  
13 from such activities, which are often carried on from the  
14 residence, teachers may be able to deduct expenses such  
15 as travelling etc. which would not satisfy the stringent  
16 terms of paragraph 7 and could not, therefore, be  
17 deducted from their salary as university teachers.

18           Yours faithfully,

19           (Sgd.) R. W. Rae

20           Senior Principal Inspector of Taxes  
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EXHIBIT C

AIRMAIL

VESTES - The Australian Universities Review

General Editor

E. L. Wheelwright,

Department of Economics,

University of Sydney. 10 January 1963.

Dr. J. H. Stewart Reid,

Executive Secretary,

Canadian Association of University Teachers,

77 Rue Metcalfe Street,

OTTAWA, Canada.

Dear Dr. Reid,

Thank you for your letter of 27 December last.

I am afraid we cannot help you at all. We have no copies of the July 1959 Vestes left, and there are no special taxation concessions made to university teachers as such. The only ones which might be so regarded are an extension of the principle of "tools of trade" allowances, which apply to one's personal library and one's academic dress. These can be depreciated at 7-1/2% p.a. on the diminishing balance method, but capital costs are not allowable. The only other deductions are those applicable to professional persons, i.e. if an academic earns outside income from say royalties, broadcasting, articles etc. quite distinct from academic salary, then certain allowances such as proportion of domestic heating and light bills, telephone etc. may be set off against the outside income. But this is normal practice for professional persons, and is in no way a concession for university teachers.





1           The only item which could be called a concession  
2 is that the personal (not family) expenses of going on  
3 sabbatical leave may be set off as a necessary academic  
4 expense against one's income during that year, on the  
5 grounds that sabbatical leave is necessary for the proper  
6 performance of academic work.

7           We are very interested in this matter ourselves  
8 and should appreciate a copy of your submission in due  
9 course, in case we have a similar opportunity in the  
10 future. With best wishes,

11           Yours sincerely,

12           Bonnie Press

13           P.P. E. L. Wheelwright  
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EXHIBIT D

Extract from Form C,72a, October, 1959, issued by the  
Association of University Teachers in Great Britain.

3. Study.

Where it is necessary for a teacher to use a room of his residence in the performance of his duties, a deduction may be claimed for a reasonable proportion of the rent (or annual value) and rates applicable to the room and for incidental cost of lighting, cleaning, heating, etc. The amount of the deduction will depend on the extent to which the room is used in the performance of the teacher's duties and for other purposes respectively.



ANGUS, STONEHOUSE & CO LTD  
TORONTO, ONTARIO

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Submission to the

ROYAL COMMISSION ON TAXATION

made on behalf of

GREAT BRITAIN AND CANADA INVESTMENT CORPORATION

by

J. T. KENWARD, C.A.

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29th March, 1963

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INTRODUCTION AND PROPOSALS

This submission is concerned with the taxation of Canadian closed-end investment trust companies under Section 69 of the Income Tax Act.

A closed-end investment trust company (hereinafter referred to as an "investment company") is by definition an agency through which the combined savings of many participants are invested so as to minimize risk, through diversification; whose shares have been subscribed in full and are not on tap; whose capital structure generally contains an element of leverage (gearing) for its Common shares, i.e., it has debentures and other Preferred stock outstanding; and where the portfolio of investments, diversified as aforesaid both as to categories and geographically, is under continuous professional management for long-term gain and not for trading purposes. Although generally described as an investment trust there are, in fact, no technical trustee relationships.

The main proposals of the submission are:

(i) The freedom of management policies of an investment company should not be restricted by government tax legislation concerning sources of income.

(ii) The burden of responsibility for taking tax decisions should be shifted from the investment trust managers to the individual shareholders who in effect are the real





beneficial owners of the investments.

(iii) The right to acquire and retain foreign investments is essential to provide the diversification of investment necessary for an investment company.

(iv) The maintenance of foreign investment is necessary to preserve a financial community from becoming ingrown to its own and, ultimately, the national disadvantage.

(v) Investment companies should be allowed a deduction from gross income for all dividends paid and should be taxed at normal corporate rates on the undistributed balance of current years' income.

(vi) Shareholders of investment companies should be allowed a dividend tax credit on only that part of dividends received which represents underlying dividends received by the investment company from other taxable Canadian corporations.

(vii) Investment companies should be entitled to a refund of tax suffered on income earned after the proposed amendment becomes effective if that income is subsequently paid out to shareholders as a cash dividend.

#### SUPPORTING ARGUMENTS

A brief summary of the important tax legislation enacted since 1949 for investment companies







1 will provide a useful introduction to the reasons for  
2 this submission.

3           During the period from 1949 to date, four  
4 conditions, required for a company to qualify as an  
5 investment company under Section 69 of the Income Tax  
6 Act of Canada, have remained virtually unchanged.  
7 Firstly, that 80% of the company's property was,  
8 throughout the year, shares, bonds, marketable securities  
9 or cash; secondly, that not less than 95% of its income  
10 for the year was derived from these investments; thirdly,  
11 that at all times with the exception of Canadian federal,  
12 provincial or municipal securities not more than 10% of  
13 the company's property was securities of any one  
14 corporation or debtor, and fourthly, that at all times  
15 the company had at least 50 shareholders, none of whom  
16 held more than 25% of the capital stock of the company.

17           In contrast to the above stability of definition  
18 other conditions have been amended in bewildering fashion.  
19 In 1954 and previous years, an investment company was  
20 totally exempt from income tax provided it complied with  
21 the conditions outlined above and also distributed at  
22 least 85% of prescribed income, less foreign taxes, to  
23 shareholders before the end of the Company's fiscal year.  
24 Favourable as this legislation appeared some companies  
25 were reluctant to apply for investment company status,  
26 since their shareholders then lost the benefit of the  
27 tax dividend credit of 10% which was introduced in 1949  
28 and increased to 20% in 1953. As the tax credit was  
29 beneficial to some shareholders with high personal  
30





1 incomes while others, including non-residents, received  
2 no advantage, there was an obvious conflict of tax  
3 interests which placed some company managers on the horns  
4 of a dilemma, having to choose between ordinary company  
5 or investment company status.

6 However, in 1955, two amendments substantially  
7 corrected this situation and drastically changed tax  
8 philosophy. Investment companies became liable to tax  
9 at 20% on taxable income, thus automatically entitling  
10 shareholders to the 20% dividend tax credit regardless  
11 of whether the company was being taxed as an investment  
12 company or as an ordinary company. Subsection (ba) of  
13 Section 69 was also introduced to provide that not less  
14 than 60% of a company's gross revenue for the year should  
15 be dividends from taxable Canadian corporations.

16 In 1956 subsection (ba) was amended to provide  
17 that not more than 50% of a company's gross revenue for  
18 the year should be from interest, and by eliminating the  
19 words "taxable corporations" also reversed the previous  
20 year's restriction on dividends from foreign sources. This  
21 change in the previous year's legislation permitted an  
22 investment company to derive 100% of its income from  
23 foreign sources, while at the same time permitting the  
24 Company's Canadian shareholders to claim a 20% dividend  
25 tax credit, since the dividends were being received from  
26 a taxable Canadian corporation. As the company could  
27 also claim a foreign tax credit against its tax payable  
28 it would appear that the 1956 legislation did not benefit  
29 the Canadian Treasury.

30 In December 1960, tax measures were introduced  
which once again completely reversed previous legislation





1 enacted in 1956 and restored a much more severe form of  
2 the 1955 law.

3 While appreciating the difficulty of enacting  
4 legislation which is clear, impartial and equitable,  
5 it is believed that the above summary of past legislation  
6 involving Section 69 gives a fair impression of the  
7 inconsistencies and anomalies with which the investment  
8 companies have been faced. For instance, the 1955  
9 amendments required companies to make drastic changes in  
10 their portfolios by selling certain holdings of bonds and  
11 foreign securities in order to meet the "60% dividends  
12 from taxable Canadian corporations" requirement, and yet  
13 the following year the law was amended in such a way as  
14 to render such sales unnecessary.

15 The 1960 tax legislation has led to the  
16 frustration of long established and well proven  
17 investment policies. After at least twenty-five years  
18 of holding approximately 60% Canadian securities and  
19 40% foreign securities, Great Britain and Canada  
20 Investment Corporation has been forced to liquidate  
21 approximately \$4,500,000 of foreign securities or 30%  
22 of the total investment portfolio in order to meet the  
23 necessary requirements of Section 69.

24 To ensure that the investor's risk is spread  
25 as widely as possible, it is of paramount importance  
26 that investment managers should have a completely free  
27 hand to invest where, when and how they decide, without  
28 being fettered by tax regulations. The extremely small  
29 list of stocks available in Canada in some major  
30





1 industries, e.g., electronics, soft drinks, transportation,  
2 insurance, packaged goods, and drugs, emphasizes the need  
3 for freedom to invest in foreign markets.

4 For a company to enjoy the benefits conferred  
5 by Section 69 the general objectives of diversification  
6 both as to category of investment and geographical  
7 location must be sacrificed. Certainly the Canadian  
8 market cannot provide investment companies with the  
9 degree of diversification which has always been their  
10 strength. The present nationalization and take-overs  
11 only tend to reduce the choice further.

12 This view is further supported by the  
13 statistics shown in the Financial Post 1962 Survey of  
14 Investment Funds, for the growth record of common shares  
15 of closed-end funds on a cumulative basis for the nine  
16 years 1953 to 1961 inclusive. During this period the  
17 shares of the following companies increased in net asset  
18 value by more than 200% as follows:-

|                                                  |      |
|--------------------------------------------------|------|
| 19 Argus Corporation                             | 239% |
| 20 Canadian Power & Paper Securities             | 218  |
| 21 Debenture & Securities Corporation of Canada  | 531  |
| 22 Dominion-Scottish Investments Ltd.            | 338  |
| 23 Great Britain & Canada Investment Corporation | 706  |

24 Of the above companies at least three, including Great  
25 Britain and Canada Investment Corporation, are known to  
26 have invested considerable amounts outside of Canada  
27 during this period. Investors Mutual of Canada Limited,  
28 who held substantial holdings of U.S. stocks, with an  
29 increase in net asset value of 181%, had the best record  
30







1 of the open-end funds. (Note: A nine-year rather than  
2 a ten-year period was taken because figures for the  
3 latter period were not available for two of these  
4 companies.)

5           Despite the success of this Corporation due in  
6 part to diversification it should be pointed out again  
7 that the Company's investment in Canadian securities has  
8 remained constant at approximately 60% for the last  
9 twenty-five years without being questioned, and it is,  
10 therefore, submitted that, although tax policy is  
11 undoubtedly of national importance and should be directed  
12 towards stimulating economic growth, at the same time  
13 it should be equitable to all segments of the community  
14 making a contribution to Canadian business financing.  
15 The creation of a Canadian money market in 1954 provided  
16 the means to use all of the surplus funds available in  
17 Canada. Despite the comparative reluctance of the  
18 Canadian public to invest in any form of risk capital  
19 both open-end and closed-end investment trusts in Canada  
20 have done much to attract the small investor's savings.  
21 In the period from 1948 to 1963 the total assets of  
22 Canadian owned mutual funds increased from \$20 million  
23 to \$800 million and in the same period total assets of  
24 closed-end funds rose to approximately \$500 million.

25           In the annual report for the year ended 31st  
26 December, 1962, the President of this Corporation stated  
27 that "Closed-end investment trusts, such as this  
28 Corporation, can enjoy popularity and success only in  
29 highly developed financial centres where professional  
30





1 investment managements are encouraged to invest the funds  
2 under their responsibility in those securities and  
3 markets where prospects appear most rewarding." With  
4 the growth of international trade becoming every more  
5 important, it is essential to retain a financial  
6 community which is conversant with opportunities for  
7 investing abroad. The importance of foreign investments  
8 to a country as a whole has been amply demonstrated  
9 during and since the last World War by the events  
10 involving the United Kingdom and the United States.  
11 While the one was forced by the exigencies of war and  
12 its aftermaths to restrict the export of capital, the  
13 other poured money into foreign investments including  
14 those in Canada. As a result British investments abroad  
15 decreased while during the same period the U.S. was able  
16 to acquire valuable footholds in fresh markets.

17 Historically in the United Kingdom, where the  
18 variety of investments far exceeds that available in  
19 Canada, proved and sophisticated investment companies  
20 have a long record of substantial holdings in foreign  
21 investments. Many of these companies have as much as  
22 25% of their portfolios invested in Canadian and U.S.  
23 securities.

24 The advent of the European Common Market  
25 sparked the formation of investment companies in the  
26 United States for the express purpose of investing in  
27 European securities.

28 Such investments produce foreign income which  
29 inevitably benefits the recipient country. This is  
30





1 particularly true in the case of Canada, which over the  
2 long term has faced large trade deficits. In addition  
3 the Canadian Government could, in a national emergency,  
4 always avail itself of the source of these funds, just  
5 as did Britain in both World Wars.

6 It should perhaps be pointed out here that  
7 neither the United Kingdom nor the United States  
8 discourages investment in foreign countries by tax  
9 legislation.

10 The Honourable Donald M. Fleming, then the  
11 Minister of Finance, in introducing his measures for  
12 encouraging a greater participation of Canadian capital  
13 in the ownership and control of Canadian industry stated  
14 that the pension funds and investment companies probably  
15 provided the largest flow of individual savings  
16 available for investment in the ownership of Canadian  
17 industry. However, at the same time he remarked  
18 "Investment funds and mutual funds which qualify as  
19 'investment companies' under the Income Tax Act enjoy  
20 a special low rate of tax of 21%. This is in recognition  
21 of the fact that these companies are essentially conduits  
22 through which an individual may channel his investment  
23 in order to obtain a diversification which he could not  
24 obtain by investing directly".

25 It appears that Mr. Fleming appreciated the  
26 "conduit" character of investment companies but preferred  
27 to penalize the company rather than the individual  
28 shareholders. From an administrative point of view it  
29 is probably easier to enforce a policy on a company than  
30





1 on a great number of individual shareholders, however,  
2 if the managers of the company are forced to make the  
3 decision, it puts them in much the same dilemma as  
4 the pre-1955 period when they had to choose between  
5 investment company or ordinary company status, depending  
6 on the status of their shareholders. This time the  
7 problem to be solved is not whether the shareholder will  
8 benefit from a dividend tax credit but whether the  
9 shareholder's personal tax rate would be higher or lower  
10 if he were to invest directly in the foreign securities  
11 instead of through an investment company. If we can  
12 safely assume that the majority of shareholders in  
13 investment companies purchase their shares because they  
14 do not have the resources to obtain directly the same  
15 diversification of investments, surely it can be equally  
16 assumed, in most cases, that the shareholders personal  
17 tax rates are low. Furthermore, if they wish to invest  
18 solely in Canadian portfolios, there are many investment  
19 companies which do not have foreign investments.

20 If an investment company is forced to pay tax  
21 at the 50% rate because it has a high proportion of  
22 foreign income the shareholder is penalized because he  
23 will receive a dividend which as already suffered 50%  
24 Canadian tax against which he can only claim a 20% tax  
25 credit, whereas if he received the dividend direct he  
26 would only suffer tax at his particular maximum rate.  
27 The following calculation illustrates the effect on a  
28 taxpayer whose maximum tax rate is 30%.







|                               | Dividend received |    | Dividend received          |    |
|-------------------------------|-------------------|----|----------------------------|----|
|                               | direct            |    | through investment company |    |
| Gross foreign dividend        | \$100             |    | \$100                      |    |
| Less withholding tax          | 15                |    | 15                         |    |
|                               | <u>85</u>         |    | <u>85</u>                  |    |
| Less tax on gross dividend    |                   |    |                            |    |
| (assuming maximum rates) \$30 |                   |    | \$50                       |    |
| Deduct foreign tax credit     | 15                | 15 | 15                         | 35 |
|                               | <u>\$70</u>       |    | <u>50</u>                  |    |
| Less tax at 30%               |                   |    | 15                         |    |
| Deduct dividend tax credit    |                   |    |                            |    |
| 20% of \$50                   |                   |    | 10                         | 5  |
|                               |                   |    | <u>\$45</u>                |    |

Such a disparity in the final net dividend, after tax, would discourage the holding of investment company shares, yet if the shareholder were to pay tax at a maximum rate of 80% the disparity disappears as shown in the following tabulation.





|                               | Dividend received |       |                           |       |
|-------------------------------|-------------------|-------|---------------------------|-------|
|                               | Dividend received |       | through                   |       |
|                               | <u>direct</u>     |       | <u>investment company</u> |       |
| Gross foreign dividend        | \$100             |       | \$100                     |       |
| Less withholding tax          | 15                |       | 15                        |       |
|                               | <hr/>             |       | <hr/>                     |       |
|                               | 85                |       | 85                        |       |
| Less tax on gross dividend    |                   |       |                           |       |
| (assuming maximum rates) \$80 |                   |       | \$50                      |       |
| Deduct foreign tax credit     | 15                | 65    | 15                        | 35    |
|                               | <hr/>             |       | <hr/>                     |       |
|                               |                   | \$ 20 |                           | 50    |
|                               |                   | <hr/> |                           |       |
| Less tax at 80%               |                   |       | 40                        |       |
| Deduct dividend tax credit -  |                   |       |                           |       |
| 20% of \$50                   |                   |       | 10                        | 30    |
|                               |                   |       | <hr/>                     | <hr/> |
|                               |                   |       |                           | \$ 20 |
|                               |                   |       |                           | <hr/> |

There are those who point out that investment trust shareholders get very favourable tax treatment, because regardless of allowed proportions of foreign income and Canadian bond interest represented in the dividends paid by an investment company, the shareholders are entitled to a 20% dividend tax credit on the full amount of the dividend. This favourable consideration should not be granted to the shareholders because an investment company may derive close to 40% of its income from sources other than dividends from taxable Canadian corporations, i.e., up to 25% from Canadian bond interest and up to 15% from foreign dividends. With these facts





1 in mind perhaps consideration should be given to  
2 alternative ways of assessing tax on a more equitable  
3 basis.

4 As we have seen, an investment company is a  
5 conduit, it is therefore submitted that the beneficial  
6 owners of the investment portfolio, i.e., the shareholders  
7 should, in effect, be offered the right to decide their  
8 own tax fate. If the managers of the company are forced  
9 to make the decision, the penalty of not being an  
10 investment company for tax purposes is such that they  
11 may choose to pay the lower rate of tax even though  
12 this may conflict with long term investment objectives.  
13 Why should the small investor's opportunity to invest in  
14 foreign securities be thus restricted? It is submitted  
15 that the small investor should not be deprived of the  
16 opportunity to invest outside of Canada and that for  
17 investment companies to be forced to ignore foreign  
18 markets can only lead to isolationism of financial thought  
19 and an ignorance of foreign investment possibilities.

20 Again who is to say that 15% and 25% are  
21 reasonable limits to place on foreign income and bond  
22 interest respectively? Such limitations only provoke  
23 the practice of "tax schemes". For instance an investment  
24 company might legally take a minority stake in a series  
25 of low tax bracket Canadian companies, controlled by  
26 different parties, formed for the sole purpose of  
27 deriving the majority of their incomes from foreign  
28 dividends. As such companies would be taxed as ordinary  
29 Canadian corporations the dividends received from them by  
30





1 the investment company could be treated as dividends from  
2 taxable Canadian corporations.

3  
4 RECOMMENDATIONS

5 The foregoing has been written to focus  
6 attention on the inequities of Section 69, the  
7 uncertainties which tax legislation can promote for  
8 long-term investment policies and the tax schemes which  
9 such legislation is bound to provoke.

10 It is assumed that, for the present, Canadian  
11 tax law will continue to permit Canadian companies to  
12 pay dividends out of fully taxed profits in contrast  
13 to the U.K. system, and that therefore the 20% dividend  
14 tax credit will remain so as to reduce the incidence of  
15 double taxation. Therefore, the following tax measures  
16 are suggested to provide both equity and certainty for  
17 future operations of investment companies without  
18 encroaching on normal management policies.

19 A. An investment company should be allowed to  
20 deduct, from total gross income earned during its  
21 fiscal year, all expenses and allowances permitted  
22 under the present Act and all cash dividends paid  
23 during the same fiscal year, such expenses, allowances  
24 and dividends to be deducted, pro rata, to the  
25 different forms of gross income earned by the company.  
26 (See Appendix "A"). The resulting net income  
27 hereinafter referred to as "taxable income".

28 B. An investment company should exclude, from all  
29 calculations of tax payable, that portion of all  
30







1 foreign and provincial taxes applicable to cash  
2 dividends allowed as a deduction in computing net  
3 taxable income. (See appendix "A").

4 C. The company should be taxed at normal corporate  
5 rates on net taxable income.

6 D. An investment company should be allowed a  
7 refund of any taxes, suffered on income earned after  
8 this proposed amendment becomes effective, where the  
9 income is subsequently paid out in the form of cash  
10 dividends.

11 E. At the end of its fiscal year, the company  
12 should report to its shareholders for the purpose of  
13 their personal income tax returns, the amounts of  
14 Canadian non-taxable dividends, other Canadian income,  
15 and the different forms of foreign income, which are  
16 represented in the total cash dividends paid to its  
17 shareholders. The company would also be required to  
18 state the amount of foreign withholding taxes  
19 applicable to the different forms of foreign income  
20 reported. (See Appendix "B").

21 F. For the purpose of the immediately preceding  
22 Section E the Company should base its calculation,  
23 of the various proportions of income and foreign  
24 taxes, on its total income and taxes for its fiscal  
25 year and apply these proportions to all cash dividends  
26 paid during such year, regardless of their dates of  
27 payment.

28 G. Shareholders would declare for personal income  
29 tax purposes, the amounts of dividends from Canadian  
30





1 taxable corporations, other Canadian income, the  
2 different forms of foreign income and foreign withholding  
3 taxes, from the information to be supplied by the company.  
4 The shareholder would only be entitled to a dividend tax  
5 credit on the amount shown as being from Canadian taxable  
6 corporations.

7 H. Subsections (ba), (bb) and (e) of Section 69  
8 (2) of the Income Tax Act, dealing with maximum  
9 allowable proportions of foreign and interest income  
10 and minimum requirements for dividend distributions,  
11 should be repealed.

12 These suggestions are put forward with a view  
13 to removing the impact which tax considerations have on  
14 investment policies, to place the responsibility of tax  
15 decisions on the shareholders who ultimately have to  
16 bear the tax, to offer a wider and more sophisticated  
17 choice of investment portfolios to the Canadian public,  
18 to permit the investor to assess the merits of each  
19 investment company portfolio in the light of his own  
20 personal tax position, and to grant the dividend tax  
21 credit on a basis fair to all. It is suggested that the  
22 1960 legislation be repealed, a precedent for which was  
23 set in 1956, and that the tax laws for investment  
24 companies be thoroughly re-examined to make the tax  
25 burden more equitable.  
26  
27  
28  
29  
30





APPENDIX "A"

Calculation illustrating the effect of allowing cash dividends as a deduction from gross income.

|                                            | <u>Dividends from<br/>Can. taxable<br/>corporations</u> | <u>Canadian<br/>bond<br/>interest</u> | <u>U.K.<br/>income</u> | <u>U.S.<br/>income</u> | <u>Total<br/>income</u> |
|--------------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------|------------------------|-------------------------|
| Interest on Bonds &<br>Debentures, etc.    |                                                         | \$40,000                              |                        | \$ 5,000               | \$ 45,000               |
| Dividends                                  | <u>\$130,000</u>                                        |                                       | <u>\$10,000</u>        | <u>20,000</u>          | <u>160,000</u>          |
|                                            | 130,000                                                 | 40,000                                | 10,000                 | 25,000                 | 205,000                 |
| Less depletion (say)                       | <u>5,000</u>                                            |                                       |                        |                        | <u>5,000</u>            |
|                                            | 125,000                                                 | 40,000                                | 10,000                 | 25,000                 | 200,000                 |
| Percentage of Total                        | 62.5%                                                   | 20%                                   | 5%                     | 12.5%                  | 100%                    |
| Expenses                                   | <u>25,000</u>                                           | <u>3,000</u>                          | <u>2,000</u>           |                        | <u>30,000</u>           |
|                                            | 100,000                                                 | 37,000                                | 8,000                  |                        | 145,000                 |
| Dividend                                   | <u>75,000 (62.5%)</u>                                   | <u>11,000 (20%)</u>                   | <u>6,000 (5%)</u>      | <u>12,000 (12.5%)</u>  | <u>120,000 (100%)</u>   |
| Net Taxable Income -                       | <u>\$ 25,000</u>                                        | <u>\$ 3,000</u>                       | <u>\$ 2,000</u>        | <u>\$ 5,000</u>        | <u>\$ 35,000</u>        |
| Tax at rate of 31% on \$35,000             |                                                         |                                       |                        |                        | \$ 11,350               |
| 50% on 5,000                               |                                                         |                                       |                        |                        | 2,500                   |
| Less: 10% Provision of United credit       |                                                         |                                       |                        |                        | 1,350                   |
| Foreign tax credit on undistributed income |                                                         |                                       |                        |                        | 1,350                   |
| Taxes paid                                 |                                                         |                                       |                        |                        |                         |
| 2,000 at 38.75%                            |                                                         |                                       | \$ 775                 |                        |                         |
| 5,000 at 15%                               |                                                         |                                       |                        | \$ 750                 |                         |
| Proportionate Canadian Tax                 |                                                         |                                       |                        |                        |                         |
| $\frac{2,000}{25,000} \times \$5,850$      |                                                         |                                       | \$ 292                 |                        |                         |
| $\frac{5,000}{25,000} \times \$5,850$      |                                                         |                                       |                        | \$ 731                 | 1,023                   |
| INCOME TAX PAID                            |                                                         |                                       |                        |                        | 1,803                   |

" Undistributed income for the year subject to federal income tax will be paid as follows in form of cash dividends.





APPENDIX "B"

If dividends totalling \$600 during a full year were paid to a shareholder by the Company illustrated in Appendix "A", the Company would be required to report to the Department of National Revenue and provide the shareholder with the following information.

Dividend derived from the following sources -

|                              |        |
|------------------------------|--------|
| Canadian taxable corporation | \$ 375 |
| Canadian bond interest       | 120    |
| U.K. income                  | 30     |
| U.S. income                  | 75     |
|                              | <hr/>  |
|                              | \$ 600 |
|                              | <hr/>  |

Foreign withholding taxes

|                |          |
|----------------|----------|
| \$30 at 38.75% | \$ 11.63 |
| 75 at 15%      | 11.25    |
|                | <hr/>    |
|                | \$ 22.88 |
|                | <hr/>    |

# ROYAL COMMISSION

ON

## HEARINGS

HELD AT

P.O.

## BRIEFS

VOLUME No.:









ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION

(under Order-in-Council P.C. 1962 - 1334)

SUBMISSION

by

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

I N D E X

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2 C. Rates of federal excise taxes on man-  
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12 G. A note about the company

13 SUMMARY  
14

15  
16 This submission is presented on behalf of the  
17 Canadian cigarette smoker who is being made to contribute  
18 an unreasonable amount to Federal revenues.

19 The cigarette smoking half of the population is  
20 drastically more highly taxed than the other without any  
21 pretence at equity or benefit.

22 A commodity as widely used as cigarettes cannot  
23 be considered a luxury, yet it bears the highest tax of  
24 any commodity.

25 It is not the function of our tax system to  
26 regulate smoking for non-economic reasons valid or not.

27 By any acceptable yardstick the rates of federal  
28 excise taxes on cigarettes are abnormal and unreasonable.

29 The cigarette industry is almost one hundred  
30 per cent Canadian. Drastic levels of taxation not only





1 affect smokers but also affect the livelihood of the  
2 tobacco farmer and tens of thousands of working Canadians  
3 from all sections of the economy.

4           Alternative sources of revenue are available  
5 by removing a number of exemptions presently allowed from  
6 the Federal Sales Tax and by applying the Federal Sales  
7 Tax on a broader base, particularly to the sale of  
8 services.

9           It is recommended that the rates of Excise Duty  
10 and Excise Tax on cigarettes be cut in half. Even if  
11 this is one, federal excise taxes on cigarettes will be  
12 ten times the level of the general sales tax.

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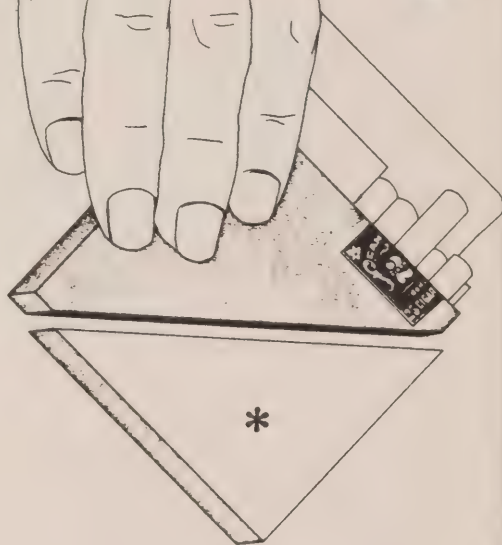


ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

4

COLLECTOR  
OF FEDERAL  
EXCISE TAXES

WHO SHARES  
THE CANADIAN  
CIGARETTE  
SMOKER'S DOLLAR



Shared among:

Tobacco farmer ■ Tobacco processor ■ Supplier of other manufacturing materials ■ Worker—plant and office  
Manufacturer ■ Merchandiser ■ Truck and railroader ■ Wholesaler ■ Retailer ■ Supplier—other goods and services  
Collector of Federal Corporate Tax ■ Collector of Provincial Taxes ■ Collector of Municipal Taxes





1 Terminology:

2 In this submission the phrase "federal excise  
3 taxes" includes federal excise duty (levied under the  
4 Excise Act), federal excise tax and federal sales tax  
5 (both levied under the Excise Tax Act). The phrase  
6 "federal tobacco taxes" includes the excise duty and  
7 excise tax on tobacco products but does not include the  
8 sales tax on tobacco products.

9  
10 Introduction:

11 It will presumably come as no surprise that we  
12 intend to argue in this submission, on behalf of the  
13 Canadian smoker, that federal tobacco taxes should be  
14 reduced. Unfortunately to propose a reduction in these  
15 taxes is, in the nature of things, to appear to be asking  
16 for concessions. In this instance this is not the case.  
17 The smoker is not seeking special treatment. Quite the  
18 contrary -- he is seeking relief from the special treat-  
19 ment he has been getting. The reductions we request are  
20 from rates of taxation we believe to be quite indefensible.  
21 In support of this contention we would first like to make  
22 a few observations on the present levels of federal  
23 tobacco taxation, in case these are wrongly assumed to  
24 be normal or reasonable.

25  
26 Specific commodity taxes

27 To begin with, we suggest there can be no basic  
28 fairness in specific commodity taxes on widely used  
29 products, such as tobacco, which are clearly not restricted  
30 to a small privileged class and which are characteristi-





1 cally used in approximately the same quantities by all  
2 income groups. They are not based on ability-to-pay. Nor  
3 are all such taxes based on the principle of specific  
4 benefits received.

5           Specific commodity taxes are resorted to on the  
6 grounds of convenience. They are productive and easy to  
7 collect. We appreciate that such taxes are imposed in all  
8 countries, and that it is unrealistic to suggest that  
9 Canada can get by entirely without them. However it  
10 should be made clear from the start that the justification  
11 for specific commodity taxes on tobacco, which is so  
12 widely used, can only be expediency and not fairness or  
13 equity.

14           That the federal tobacco taxes are inequitable  
15 is perhaps self-evident, but the extent of the unfairness  
16 may go unrecognized. However a very simple example will  
17 demonstrate how extreme this unfairness is. Take the  
18 representative case of a married man, with two children,  
19 earning the average industrial wage of \$4,000 a year. He  
20 will pay income tax of \$191. If he and his wife each  
21 smoke a 20-cigarette pack a day, they will pay an  
22 additional \$146 a year in federal excise taxes on cigar-  
23 ettes. This means that while we go to great pains to  
24 establish a personal income tax carefully graduated in  
25 accordance with ability-to-pay, any equity we may attain  
26 is lost when people in the same circumstances pay 75%  
27 more tax if they happen to be smokers. As approximately  
28 half the adult population are in fact smokers, it means  
29 that one-half of the population is drastically more  
30 highly taxed than the other without any pretence at equity





1 or benefit.

2 In illustrating our point by reference to a  
3 taxpayer at the \$4,000 salary level, we are of course not  
4 taking the most extreme example we could find. As a  
5 matter of fact, the majority of taxpayers earn less than  
6 \$4,000 and the comparison for them would be more striking  
7 for that reason -- because income taxes drop as we go  
8 down the earnings scale while federal excise taxes on  
9 cigarettes do not.

10 In this simple illustration we deal only with  
11 personal income taxes and federal excise taxes on cigar-  
12 ettes. It might perhaps be thought that, in the complex  
13 labyrinth of our tax system, there must be many such  
14 anomalies -- but this is not so. Cigarettes stand alone  
15 in this respect. Other tobacco products, distilled  
16 spirits and malt beer come closest to cigarettes as  
17 targets for taxation, but only distilled spirits approach  
18 the same level of taxation.

19  
20 Why pick on tobacco?

21 Surely the present rates of tax on tobacco,  
22 which are so far out of line with our whole tax pattern,  
23 could not have been enacted, even on grounds of expediency,  
24 had not certain non-economic (and we think irrelevant)  
25 considerations had their influence. It is surely undesir-  
26 able that this should be so -- and particularly when some  
27 of these attitudes to tobacco are based on doubtful logic.

28 To some extent our high tobacco taxes are un-  
29 doubtedly attributable to opposition to smoking which,  
30 though sometimes quite passionate, is based on rather







1 vague grounds. It would be difficult without making this  
2 submission intolerably long, to deal fully with this  
3 opposition to smoking, but we must comment briefly on the  
4 notions that smoking is a luxury, or even that it is  
5 immoral or that it might be injurious to health.

6           Smoking is certainly an odd kind of luxury. It  
7 is enjoyed by half the adult population, and not by a  
8 privileged few. With the exception of a few connoisseurs  
9 of fine cigars, there is no difference in the smoking  
10 pattern of rich and poor. Any cut-and-dried distinction  
11 between luxuries and necessities is purely arbitrary. It  
12 is much more realistic to consider that there are degrees  
13 in which products are more or less necessary -- and a  
14 wide range of personal opinion as to what is necessary and  
15 what is not. After all, only a negligible minority of  
16 Canadians are literally at a subsistence level, and the  
17 absolute necessities to maintain life are a limited part  
18 of the expenditures of almost any Canadian family. When  
19 we get beyond the basic minimum expenditure on food,  
20 clothing and shelter to maintain life, every expenditure  
21 might be said to have some element of "luxury" in it. It  
22 is interesting to note that tobacco is a component in the  
23 D.B.S. consumer price index which is based on average  
24 family spending habits.

25           We do not believe that the arguments that  
26 smoking is immoral or that it might be injurious to health  
27 are valid -- but even if there were some element of  
28 validity in these viewpoints, it should not be the func-  
29 tion of our tax system to regulate smoking. To attempt  
30 to do so introduces invidious distinctions in the treat





1 ment of taxpayers and constitutes an attempt to steer  
2 consumer demand from what people want to spend their  
3 money on to something else. As the economists would say  
4 -- the result is "a less than optimum level of consumer  
5 satisfaction".

6  
7 Other aspects

8 Half the adult population smokes and this  
9 results in unfair tax burdens as between people. However  
10 a high tax on cigarettes would still be unfair even if  
11 everybody smoked. A person with ten times the income of  
12 another does not smoke ten times as many cigarettes -- it  
13 would be impossible. The daily ration is fairly standard  
14 regardless of income and the quality of cigarettes is well  
15 high uniform. The same brands are found in the poolroom  
16 as in the boardroom -- in the bunkhouse as in the penthouse.  
17 The federal tobacco taxes on cigarettes are, in effect,  
18 a substantial poll tax imposed on an arbitrarily selected  
19 group -- the sort of levy which all authorities would  
20 assign to the lowest place of all on the tax totem pole.

21 The reverse or negative aspects of the tax  
22 likewise deserve analysis. At present levels, the federal  
23 tobacco taxes on cigarettes must cause a substantially  
24 decreased usage, as is evidenced by the fact that Ameri-  
25 cans, with a substantially lower tax rate, smoke over  
26 25% more than Canadians per capita. Those who are deterred  
27 from smoking represent a net loss in satisfaction and  
28 pleasure in the community.

29  
30





1 Reasonable degrees of reliance on specific commodity taxes  
2 We would not presume to brush aside the problems  
3 which governments must face in meeting their budget require-  
4 ments. We simply argue that at present the specific taxes  
5 on tobacco products are higher than can be justified on  
6 any reasonable grounds. We make this statement with a  
7 full appreciation of the fact that there are no theoretic-  
8 al formulae which can be invoked to establish what proper  
9 rates of taxation should be in a case of this sort.

10 Lacking any theoretical yardstick, we suggest  
11 that the only practical course is to judge the rates of  
12 federal excise taxes on cigarettes in Canada --

- 13 (a) by common sense,  
14 (b) in comparison with other commodity taxes  
15 now in effect in Canada,  
16 (c) in comparison with federal tobacco taxes  
17 in Canada at other periods, and  
18 (d) in comparison with federal excise taxes  
19 on cigarettes in other countries.

20  
21 (a) Common sense

22 We make bold to observe that our federal toba-  
23 cco taxes can be seen to be too high by simple common  
24 sense. At the present time, federal tobacco taxes provide  
25 approximately 7% of the federal budgetary tax revenue --  
26 and this simple figure surely establishes the excessive  
27 reliance of the Federal Government on specific commodity  
28 taxes on this one product. This contrasts sharply with  
29 the picture in the U.S.A., where tobacco taxes provide  
30 2% of the federal budgetary tax revenue. We believe that





1 the federal excise taxes on tobacco would be generally  
2 recognized as being completely unfair if the tax rates  
3 were expressed on a basis which really indicated their  
4 heavy impact. For example, if it were generally recognized  
5 that these taxes on cigarettes in Canada now averaged  
6 209% on the manufacturers' sales price (net of taxes) or  
7 124% on the retail sales price (net of taxes), it would  
8 be self-evident that this product is suffering from  
9 excessive taxation. The calculation of the present rates  
10 of federal excise taxes on cigarettes is shown in Appendix  
11 A.

12 In this submission we must frequently offer  
13 comparisons in terms of percentages, but we would like to  
14 emphasize that the amounts of money involved in these  
15 taxes are very large indeed. Many dramatic illustrations  
16 of this fact could be given. To state just one, it will  
17 be freely conceded that the building of the St. Lawrence  
18 Seaway was a courageous venture on an enormous scale for  
19 our country -- yet one year's federal excise taxes on  
20 tobacco products would provide for 80% of the original  
21 cost of this Seaway to the Canadian Government. Or again,  
22 there is the simple fact that the amount collected in the  
23 fiscal year 1961/62 by these federal excise taxes reached  
24 the astronomical figure of \$410,000,000.

25  
26 (b) Comparison with other commodity taxes now in effect  
27 in Canada

28 Cigarettes are now the highest taxed product  
29 in the country. We submit as Appendix B some comparisons  
30 with other products. We believe all of these comparisons







are quite illuminating -- for example cigarettes 124% of retail price net of taxes; distilled spirits 59% of retail price net of taxes (including provincial markup); soft drinks 9% of retail price net of taxes, and chocolates etc., 8%. If automobiles were taxed at the same rate as cigarettes, a family car now costing \$2,400 would cost \$6,680.

(c) Comparison with federal tobacco taxes in Canada at other periods.

We attach in Appendices C and D some comparisons of the rates of increase between 1950 and the present day for various tobacco commodities. Looking back over a longer period, it could be shown that while the general sales tax has increased 38% since prewar days (all of which increase is due to the old age security tax), the federal tobacco taxes on cigarettes are up 125% and on manufactured tobacco 475%.

We might also point out that federal tobacco taxes on cigarettes are close to what they were in the emergency days of World War II, when there was obviously justification for raising revenue by any possible means. These taxes have not been materially higher at any time in Canadian history, with the exception of the brief period following the tax increases in 1951. The latter increases were removed when it became clear that rates had been pushed beyond the point of diminishing returns. In that period the use of smuggled tobacco products became acceptable to a large number of Canadians (a most conclusive proof of the excessiveness of the tax rates.)





1 We have estimated that, in this unhappy period, 10% of  
2 the cigarettes smoked in Canada were smuggled into the  
3 country.

4 That the Government's reliance on federal toba-  
5 cco taxes is not only excessive but is increasingly  
6 excessive is demonstrated in Appendix E. It can be noted  
7 that while federal tobacco taxes were 67% of all other  
8 federal specific commodity taxes, excluding tobacco taxes  
9 in the fiscal year 1951/52, this percentage has increased  
10 over the years and rose to 150% in 1961/62.

11  
12 (d) Comparison with federal excise taxes on cigarettes  
13 in other countries

14 We suggest it is anomalous that federal excise  
15 taxes on cigarettes are approximately twice as high in  
16 Canada as they are in the United States. Taking federal  
17 excise taxes alone, the comparative tax on a package of  
18 twenty cigarettes is 20 cents in Canada and 8 cents in the  
19 U.S.A. If State or Provincial taxes are included an  
20 average must be struck as there is, of course, no unifor-  
21 mity between different local authorities. With these  
22 State or Provincial taxes included and averaged, the com-  
23 parison is 22 cents in Canada and 12 cents in the U.S.A.

24 When making comparisons with other countries,  
25 we believe that the U.S.A. which, like Canada, has a  
26 completely domestic cigarette industry, provides the  
27 fairest and most telling comparison. If one ranged abroad,  
28 many different situations would be encountered -- depend-  
29 ing on local conditions such as type of government,  
30 quantity of imported leaf tobacco, etc.





1 The tobacco industry

2 We consider it significant that the cigarette  
3 industry is about as close to being a one-hundred-per-  
4 cent Canadian operation as could possibly be imagined.  
5 Very striking comparisons could be made with almost any  
6 other industry. We therefore wish to emphasize that, in  
7 thinking of the effects of excessive tobacco taxes, it is  
8 wrong to concentrate entirely on the hardships imposed on  
9 cigarette smokers. There is also the question of the  
10 farmers, who suffer obvious loss of production when  
11 excessive tax rates reduce per capita usage of tobacco.

12 We believe that the very heavy rates of federal  
13 tobacco taxes imposed on cigarettes in Canada tend  
14 demonstrably to reduce usage. In Appendix F we indicate  
15 the effect on usage of some of the changes in rates in  
16 recent years.

17 We might point out some of the achievements of  
18 our industry. If this appears immodest, we can only con-  
19 fess that we do take considerable pride in the way this  
20 industry has operated.

21 Until 1925, practically all the tobacco used in  
22 Canada was imported. Now our tobacco is virtually 100%  
23 home grown. In the transition, an industry has been built  
24 up which brings a cash crop to 6,000 farmers and wages  
25 to 40,000 seasonal farm workers. It is the most important  
26 cash crop grown in Ontario -- earning four times the value  
27 of the entire Ontario fruit crop. The manufacturing end  
28 of the industry employs 10,000 people and there are  
29 90,000 retail outlets.

30 We suggest that the industry operates with





1 admirable efficiency. To Canadians, with their constant  
2 experience of higher prices in Canada compared to the U.S.A.,  
3 perhaps the most striking fact would be that Canadian  
4 manufacturers' prices of cigarettes are virtually as low  
5 as American on a net of taxes basis. We are not a high  
6 cost industry appealing for help to survive.

7           In the ten-year period from 1952 to 1962, the  
8 manufacturers' selling price (net of taxes) dropped 6%,  
9 while the average hourly wage of tobacco workers rose 50%  
10 and the cost of cigarette tobacco rose 25%. In the same  
11 period the corresponding American average price has risen  
12 by some 30%.

13  
14 Alternative sources of revenue

15           In recommending reductions in taxes we would  
16 like to suggest alternative sources of revenue. The  
17 important point in any reform of taxes is to start with an  
18 appreciation of the government's obligation to collect  
19 revenue -- and this means in effect that proper tax reform  
20 must start with control of expenditures. In our opinion  
21 it is a pity that so much importance appears to be con-  
22 centrated on the budget address -- when the really import-  
23 ant debates should centre around approval of expenditures.

24           From our point of view, we believe the govern-  
25 ment should reduce federal tobacco taxes on cigarettes,  
26 and that the revenue thus lost could fairly be made up by  
27 increasing almost any other tax -- a sweeping conclusion  
28 which we reach through our conviction that cigarettes are  
29 more excessively taxed than any other commodity.

30           While through the exigencies of budgetary







1 demands the tax authorities have done quite a job of  
2 covering available sources of taxation, there are certain  
3 untaxed areas which might warrant attention. For example,  
4 while the general sales tax produces a very important  
5 part of the government's revenue, there are quite wide  
6 areas of exemptions -- such as the sale of services. An  
7 increasing part of the nation's spending is now in the  
8 service area. This is illustrated by the fact that  
9 personal expenditure on consumer services expressed as a  
10 percentage of personal expenditure on consumer goods and  
11 services has risen from 30.7% in 1952 to 38.8% in 1962,  
12 according to D.B.S. statistics. This area of services  
13 must provide considerable possibilities for new tax  
14 revenue.

15  
16 Taxes on tobacco products other than cigarettes

17 In the interests of simplicity, the illustrations  
18 we have given throughout this submission are based largely  
19 on federal tobacco taxes on cigarettes -- which is much  
20 the most important of the federal tobacco taxes. However  
21 we would like to point out that similar criticisms can be  
22 directed to the high rates of tax on cigars and other  
23 tobacco products.

24  
25 Recommendations

26 From the arguments advanced in this submission,  
27 it will no doubt be appreciated that we believe a strong  
28 case can be made in equity for the abolition of federal  
29 tobacco taxes. If in an imperfect world this is out of the  
30 question, we urge a very drastic reduction in these taxes.





1 Even if the taxes were cut in half, they would remain  
2 higher than tobacco taxes in the U.S.A. -- and would also  
3 remain at approximately ten times the level of the general  
4 sales tax.

5 With all possible sympathy for the Government's  
6 problems in raising revenue, surely no one in his right  
7 mind could suggest that federal tobacco taxes on cigarettes  
8 at 50% of present levels would be too low.

9 When submissions on a case such as this have  
10 been made to the Minister of Finance, as has been done for  
11 many years, it is understandable that matters of expediency  
12 vie with matters of equity, but where a long term study  
13 is being made it is hoped that federal tobacco taxes will  
14 be studied in perspective. Disregarding any immediate  
15 loss of revenue of the magnitude which would result from  
16 our proposal, it is thought that the basic reasonableness  
17 of the smokers' case cannot be questioned. We believe  
18 that the case for a drastic reduction in federal tobacco  
19 taxes on cigarettes should be accepted in principle and  
20 a program of working steadily to this end should be  
21 implemented without delay.

22 The recommendations we make in this submission  
23 are of concern to a great many Canadians. As mentioned  
24 above, half the adult population smokes and more people  
25 pay tobacco taxes than income taxes.

26 In this presentation we have attempted to con-  
27 fine ourselves to a few simple illustrations in support of  
28 our contention that federal tobacco taxes are much too  
29 high. If any further supporting statistics are required,  
30 they can easily be produced. We would be very glad to





1 co-operate in any way in producing them.

2 We have set out in Appendix G summarized  
3 information about our Company to illustrate our part in  
4 the tobacco industry.

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IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

## APPENDIX A

### CALCULATION OF PRESENT RATES OF FEDERAL EXCISE TAXES ON CIGARETTES

|                                                                                   | TAXES          | TOTAL |
|-----------------------------------------------------------------------------------|----------------|-------|
| PER THOUSAND CIGARETTES                                                           |                |       |
| Manufacturers' selling price net of taxes                                         |                | 4.78  |
| Excise duty \$4.00 per thousand                                                   | 4.00           | 4.00  |
|                                                                                   |                | 8.78  |
| Sales tax on above at 11%                                                         | .97            | .97   |
|                                                                                   |                | 9.75  |
| Excise tax 2½ cents per five cigarettes                                           | 5.00           | 5.00  |
|                                                                                   | 9.97           | 14.75 |
| Wholesalers' and retailers' markup                                                |                |       |
| Suggested retail price                                                            |                | 3.25  |
|                                                                                   |                | 18.00 |
| Federal excise taxes as a proportion of manufacturers' selling price net of taxes | \$9.97         |       |
|                                                                                   | =              | 209%  |
|                                                                                   | \$4.78         |       |
| Federal excise taxes as a proportion of suggested retail price net of taxes       | \$ 9.97        |       |
|                                                                                   | =              | 124%  |
|                                                                                   | \$18.00 - 9.97 |       |







IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX B

COMPARATIVE RATES OF FEDERAL COMMODITY TAXATION INCLUDING SALES TAX  
REPRESENTATIVE COMMODITIES — 1962

|                                     | RATE AS<br>PROPORTION<br>OF MANUFACTURERS'<br>SELLING PRICE<br>NET OF TAXES | RATE AS<br>PROPORTION<br>OF RETAIL PRICE | RATE AS<br>PROPORTION<br>OF RETAIL PRICE<br>NET OF TAXES |
|-------------------------------------|-----------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------|
| Chocolates, Confectionery, etc. (1) | 11%                                                                         | 7%                                       | 8%                                                       |
| Cigarettes (1)                      | 209%                                                                        | 55%                                      | 124%                                                     |
| Manufactured Tobacco (1)            | 89%                                                                         | 38%                                      | 62%                                                      |
| Soft Drinks (1)                     | 11%                                                                         | 8%                                       | 9%                                                       |
| Automobiles (2)                     | 11%                                                                         | 8%                                       | 9%                                                       |
| Radios, T.V.'s, etc. (2)            | 26%                                                                         | 17%                                      | 20%                                                      |
| Malt Beer (3)                       | 42%                                                                         | 24%                                      | 31%                                                      |
| Distilled Spirits (4)               | 197%                                                                        | 37%                                      | 59%                                                      |

(1) Based on trade prices for representative standard products.

(2) Assuming the distributive trade markup to be 20% of the retail price.

(3) Based on \$3.75 case (24 small Ontario) and assuming the Provincial markup to be 20% of the retail price.

(4) Based on Distillery Industry Figures.





IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX C

RATES OF FEDERAL EXCISE TAXES\* ON MANUFACTURED TOBACCO PRODUCTS

| DATE OF CHANGE    | CIGARETTES   |             |           | CIGARS       |             |           | MANUFACTURED TOBACCO |             |           |
|-------------------|--------------|-------------|-----------|--------------|-------------|-----------|----------------------|-------------|-----------|
|                   | PER THOUSAND |             |           | PER THOUSAND |             |           | PER POUND            |             |           |
|                   | EXCISE TAX   | EXCISE DUTY | SALES TAX | EXCISE TAX   | EXCISE DUTY | SALES TAX | EXCISE TAX           | EXCISE DUTY | SALES TAX |
| 1950              | \$4.00 (2)   | \$6.00      | 8%        | 25% (1)      | \$1.00      | 8%        | \$0.32 (2)           | \$0.35 (2)  | 8%        |
| 1951 April (X)    | 5.50         | 6.00        | 10%       | 25%          | 1.00        | 10%       | .80                  | .35         | 10%       |
| 1952 April (Y)    | 4.00         | 6.00        | 10%       | 15%          | 1.00        | 10%       | .80                  | .35         | 10%       |
| 1953 February (Y) | 4.00         | 4.00        | 10%       | 15%          | 1.00        | 10%       | .80                  | .35         | 10%       |
| 1959 April (X)    | 5.00         | 4.00        | 11%       | 15%          | 2.00        | 11%       | .80                  | .35         | 11%       |

(1) Established in June 1946 to replace prewar system of specific graduated rates.

(2) Rate established in 1943 which was the wartime peak following successive tax increases from the prewar rates shown below:

| PREWAR RATES         | EXCISE TAX | EXCISE DUTY | SALES TAX |
|----------------------|------------|-------------|-----------|
| CIGARETTES           | —          | \$4.00      | 8%        |
| MANUFACTURED TOBACCO | —          | \$0.20      | 8%        |

\* Comprised of Excise Tax, Excise Duty and Sales Tax applicable to Domestic Tobacco Products.  
(X) Tax increase year—cigarettes  
(Y) Tax decrease year—cigarettes





IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX D

TOTAL FEDERAL EXCISE TAXES\* ON REPRESENTATIVE STANDARD TOBACCO PRODUCTS

| DATE OF CHANGE    | CIGARETTES<br>PER THOUSAND | CIGARS             |                     | MANUFACTURED<br>TOBACCO<br>PER POUND |
|-------------------|----------------------------|--------------------|---------------------|--------------------------------------|
|                   |                            | PER THOUSAND<br>5¢ | PER THOUSAND<br>10¢ |                                      |
| 1950              | \$10.81 (1)                | \$11.06            | \$18.85             | \$0.79 (1)                           |
| 1951 April (X)    | 12.54                      | 11.51              | 19.65               | 1.31                                 |
| 1951 October      | 12.60 (2)                  | 11.51              | 19.65               | 1.31                                 |
| 1952 April (Y)    | 11.10                      | 9.11               | 17.00               | 1.31                                 |
| 1953 February (Y) | 8.86                       | 9.11               | 17.00               | 1.31                                 |
| 1959 April (X)    | 9.97                       | 10.46              | 18.71               | 1.34                                 |
| 1961 July         | 9.97                       | 10.46              | 18.71               | 1.36 (2)                             |

(1) Prewar — Cigarettes \$4.57  
Mid. Tobacco \$0.28

(2) Due to price adjustment

\* Comprised of Excise Tax, Excise Duty and Sales Tax applicable to Domestic Tobacco Products.

(X) Tax increase year—cigarettes  
(Y) Tax decrease year—cigarettes





IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX E

TOTAL FEDERAL EXCISE TAXES (EXCLUDING SALES TAX)\*  
PAID BY THE CONSUMER OF MANUFACTURED TOBACCO PRODUCTS  
COMPARED WITH OTHER REPRESENTATIVE COMMODITIES

(MILLIONS OF DOLLARS)

| FISCAL<br>YEAR | AUTOS | BEER | SPIRITS | RADIOS,<br>T.V.S.,<br>ETC. | CHOCOLATES,<br>CONFECTION-TIRES AND<br>ERY, ETC. | ALL<br>OTHERS | TOTAL (EXCL.<br>TOBACCO<br>PRODUCTS) | MANUFACTURED<br>TOBACCO PRODUCTS |                                                                   |
|----------------|-------|------|---------|----------------------------|--------------------------------------------------|---------------|--------------------------------------|----------------------------------|-------------------------------------------------------------------|
|                |       |      |         |                            |                                                  |               |                                      | AMOUNT                           | AS A RATIO<br>TO TOTAL<br>(EXCLUD-<br>ING<br>TOBACCO<br>PRODUCTS) |
| 1950-51        | 51.2  | 68.2 | 60.1    | 5.4                        | 17.1                                             | 8.6           | 254.4                                | 196.3                            | 78                                                                |
| 1951-52        | 77.9  | 77.6 | 45.9    | 7.9                        | 30.0                                             | 11.7          | 308.3                                | 205.1                            | 67                                                                |
| 1952-53        | 68.2  | 85.9 | 48.6    | 10.1                       | 23.6                                             | 10.6          | 292.2                                | 217.2                            | 74                                                                |
| 1953-54        | 82.1  | 83.5 | 69.2    | 15.9                       | 23.4                                             | 10.4          | 314.7                                | 207.6                            | 66                                                                |
| 1954-55        | 63.2  | 73.8 | 72.2    | 20.5                       | 17.2                                             | 8.1           | 270.2                                | 213.1                            | 79                                                                |
| 1955-56        | 62.5  | 80.7 | 77.5    | 21.6                       | 17.0                                             | .8            | 274.7                                | 235.2                            | 86                                                                |
| 1956-57        | 69.3  | 83.1 | 86.2    | 17.8                       | 17.9                                             | —             | 290.2                                | 251.5                            | 87                                                                |
| 1957-58        | 62.1  | 88.2 | 89.9    | 15.5                       | 1.3                                              | —             | 272.6                                | 272.3                            | 100                                                               |
| 1958-59        | 47.3  | 83.1 | 96.6    | 15.5                       | —                                                | —             | 253.7                                | 287.5                            | 111                                                               |
| 1959-60        | 47.3  | 90.7 | 102.4   | 14.7                       | —                                                | —             | 272.4                                | 300.0                            | 121                                                               |
| 1960-61        | 44.9  | 91.0 | 108.5   | 12.8                       | —                                                | —             | 276.6                                | 342.9                            | 124                                                               |
| 1961-62 EST.   |       |      |         |                            |                                                  |               | 245.0                                | 367.1                            | 150                                                               |

\* Comprised of Excise Tax and Excise Duty applicable to Domestic Products.  
Source: Department of National Revenue Annual Reports.







IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

APPENDIX F  
VOLUME OF MANUFACTURED TOBACCO PRODUCTS CONSUMED IN CANADA  
PER CAPITA

| FISCAL YEAR | CIGARETTES |          | CIGARS |          | MANUFACTURED TOBACCO |          |
|-------------|------------|----------|--------|----------|----------------------|----------|
|             | UNITS      | % CHANGE | UNITS  | % CHANGE | POUNDS               | % CHANGE |
| 1950-51     | 1,244      |          | 14.8   |          | 2.14                 |          |
| 1951-52 (X) | 1,048      | -15.8    | 11.6   | -21.6    | 2.18                 | + 1.9    |
| 1952-53 (Y) | 1,273      | +21.5    | 14.6   | +25.9    | 2.29                 | + 5.0    |
| 1953-54 (Y) | 1,448      | +13.7    | 16.3   | +11.6    | 1.87                 | -18.4    |
| 1954-55     | 1,470      | + 1.5    | 15.6   | - 4.3    | 1.75                 | - 6.4    |
| 1955-56     | 1,589      | + 8.1    | 16.5   | + 5.8    | 1.62                 | - 7.4    |
| 1956-57     | 1,732      | + 9.0    | 16.4   | - 0.6    | 1.42                 | -12.4    |
| 1957-58     | 1,830      | + 5.7    | 17.8   | + 8.5    | 1.36                 | - 4.2    |
| 1958-59     | 1,926      | + 5.2    | 18.7   | + 5.1    | 1.37                 | + 0.7    |
| 1959-60 (X) | 1,962      | + 1.3    | 18.5   | - 1.1    | 1.38                 | + 0.7    |
| 1960-61     | 1,942      | - 0.6    | 19.2   | + 3.8    | 1.35                 | - 2.2    |
| 1961-62     | 2,044      | + 5.3    | 18.6   | - 3.1    | 1.34                 | - 0.7    |

(X) Tax increase year—cigarettes  
(Y) Tax decrease year—cigarettes  
Source: Department of National Revenue Excise Figures and D.B.S. Population Estimates as of September 1 of each year.





APPENDIX G

A NOTE ABOUT THE COMPANY

Incorporated in 1912 to acquire a company of the same name formed in 1908, Imperial Tobacco with its subsidiaries is the largest manufacturer of cigarettes, cigars and cut tobacco in Canada, supplying about 50% of the Canadian market.

Manufacturing plants are located at Montreal, Granby and Quebec City in Quebec and at Hamilton and Guelph in Ontario. Cigar leaf is processed at Joliette, P.Q., and cigars are manufactured at Montreal. Tobacco leaf processing plants are maintained at Delhi and Aylmer, Ontario. A wholly-owned subsidiary, United Cigar Stores Ltd., owns retail stores in most provinces. Distributing warehouses and sales offices are maintained in ten principal cities from Newfoundland to British Columbia.

The Company has about 12,000 common shareholders and employs approximately 6,000 people.

Imperial's brands and the brands of associated companies include: Cigarettes: Player's, Sweet Caporal, Winchester, Buckingham, Gold Flake, Pall Mall, Philip Morris, Marlboro, Filter Player's, Kool (mentholated filter-tipped), Cameo (mentholated filter-tipped), du Maurier (filter-tipped), Viceroy (filter-tipped), Matinee (filter-tipped), Peter Jackson (filter-tipped). Cigars: House of Lords, White Owl, Ricardo, Robert Burns, Daily Double, La Palina, Marguerite, Old Port, Peg Top. Tobaccos: Player's, Ogdens, Old Virginia, Old Chum,





- 1 Piccadilly, Picobac, Alouette, Brahadi's (Mild Cavendish),
- 2 Philip Morris, La Salle, Imperial Mixture, Forest and
- 3 Stream, and Vogue.

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ANGUS, STONEHOUSE & CO. LTD  
TORONTO, ONTARIO

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4 SUBMISSION  
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6 TO THE  
7 ROYAL COMMISSION ON TAXATION  
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OTTAWA, ONTARIO

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16 H. DOUGLAS LIGHTFOOT, P. ENG.  
17 734 Lake St. Louis Road  
18 Ville de Lery, Quebec  
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20 March 1963  
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1 (A) SUMMARY

2  
3 1. The cause of taxation is Government spending.  
4 The following suggested changes in the taxation system  
5 are aimed at the cause of taxation:

6 (a) Taxation must be brought out into the open  
7 by the elimination of the compulsory with-  
8 holding feature and elimination or sharp  
9 reduction of sales taxes, excise taxes,  
10 customs import duties and other miscellaneous  
11 taxes, so that at least 95% of all taxes are  
12 raised from one source, i.e. income taxes.

13 (b) Taxes must be distributed fairly through  
14 the elimination of the progressive income  
15 tax, and the institution of an income tax  
16 system based on each person or corporation  
17 paying the same percentage of income tax.

18 2. Such revisions as the above will provide a fair  
19 taxation system and will give each citizen a better  
20 opportunity to know and realize how much tax he pays.  
21 As a result, each citizen will be able to more  
22 realistically evaluate Government spending, the cause of  
23 taxation.

24 (B) DISCUSSION

25  
26 3. Any study of the taxation system must, of  
27 necessity, consider the cause of taxation, which is  
28 Government spending.

29 4. How does the taxation system influence Government  
30 spending? The specific devices of the system are





1 "hidden" or "painless" taxation methods which make it  
2 difficult for a citizen to know and to realize how much  
3 tax he pays, and by taxing one group of citizens for the  
4 benefit of another group.

5 5. These two methods encourage our citizens to  
6 continually ask for more Government spending because  
7 they do not know how much their taxes will increase, or  
8 because they believe that someone else's taxes will  
9 increase more than theirs.

10 6. The common methods used to hide taxes or make  
11 then "painless" are the compulsory withholding feature,  
12 sales and excise taxes, and to some extent customs  
13 import duties. Many people find the withholding feature  
14 convenient, and this would justify maintaining it but  
15 only on a voluntary basis. Elimination or sharp  
16 reduction of sales and excise taxes as well as customs  
17 import duties is necessary so that our taxes may brought  
18 out into the open. I also believe that collecting all  
19 taxes from one source, i.e. income tax, is desirable  
20 because the effect of all tax changes can be directly  
21 and easily determined by each individual.

22 7. The most obvious example of taxing one group for  
23 the benefit of another is the progressive income tax.  
24 This scheme is unfair. I believe a fair income tax  
25 scheme is one in which everyone pays the same percentage  
26 of tax on their income. By everyone, I mean corporations  
27 as well as individuals. When compared with the current  
28 system, such a scheme, apart from being fair, will  
29 provide corporations with more funds for modernization  
30





1 and expansion, put them in a better competitive position  
2 in world markets, and eliminate the only justification  
3 for customs import duties.

4 (C) RECOMMENDATIONS  
5

6 8. My recommendations are:

7 (a) Elimination or reduction of most other forms  
8 of taxation so that income tax provides at  
9 least 95% of Government revenues. Also  
10 removal of the compulsory withholding feature.

11 (b) Revision of the income tax structure so that  
12 each individual and corporation pays the  
13 same percentage of income tax.

14 9. The proposals recommended are designed to make  
15 the taxation system fair and to simplify it so that each  
16 individual can easily and directly evaluate tax changes.  
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H. D. LIGHTFOOT

# ROYAL COMMISSION

ON

# TAXATION

## HEARINGS

HELD AT

TORONTO

ONT.

VOLUME No.: 11A DATE: May 1, 1963

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TORONTO, ONTARIO

BRIEF

o n

TAXATION

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Submitted to

THE ROYAL COMMISSION ON TAXATION

December, 1962

by

FRANK O'HEARN

Director

THE OFFICE OF VALUATION AND EXCHANGE

(A Private Research Bureau)

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59 Bethune Blvd.,  
Scarboro, Ont.

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BRIEF TO THE ROYAL COMMISSION ON TAXATION

S U M M A R Y

The Prime Minister and the Royal Commission on Taxation have quite properly invited anyone having any ideas or proposals on taxation to file Briefs with the Commission and appear before it at public hearings.

Accordingly, I beg to submit this Brief to the Commission for its consideration and recommendations in connection therewith and for public hearings in regard thereto.

I would state first of all, that this Brief does not concern itself particularly with the various forms of taxation presently in use or the various sources thereof, nor with the various purposes for which the current taxation levies were assessed. Nor does it concern itself particularly whether the taxation is levied by the Federal, Provincial or Municipal Governments, for obviously taxes are taxes regardless of who collects them or what purposes they are collected for or who pays them.

Rather, this Brief concerns itself mainly with the amount of taxation levied and collected in and with the use to which the tax money was put, and particularly with the retention of the tax money in the market as part of our capital and national money supply, instead of having a large portion of it kept out of circulation through the prevailing policy of deficitism being pursued by the governments and banks in reporting their overdrafts and deficits.





1 Obviously, these are exceedingly important phases of  
2 taxation, and it is with these aspects of taxation that  
3 we have conducted an extensive and expensive research  
4 over the years.

5 For the information of this Commission, we would  
6 say that in Briefs devised to improve our existing  
7 taxation, banking accounting and monetary procedures  
8 which we have already submitted to our government and to  
9 the Royal Commission on Banking and Finance, we submitted  
10 various alternative methods by the use of which our  
11 governments could have gotten billions of dollars more  
12 than they did, had they encashed their tax collections  
13 properly, and could have collected billions of dollars  
14 less taxes from the public than they actually collected.  
15 Any of the ways we offered would have worked out to the  
16 benefit of the government and taxpayers without any  
17 increased costs to anybody.

18 In our Brief, we summarize the various new  
19 plans we've submitted which could be properly used by  
20 our governments to relieve the burdensome taxes now  
21 intolerably inflating our costs of production and living  
22 costs far beyond the levies warranted had the tax methods  
23 and tax money been properly handled and reported by our  
24 governments and banks.

25 In our Brief, too, we detail the facts we feel  
26 the Commission should bear in mind when considering our  
27 proposals.

28 We will gladly furnish any further information  
29 hereinregard that the Commissioners may desire, and will  
30 support this Brief at public hearings too.





Owing to the great cost to us of developing our Copyrighted Formula over the years, we submit that if any of our governments or banks make use thereof to their own advantage or to the advantage of the public, such use should be on an attributable basis.

FRANK O'HEARN  
Director  
The Office of Valuation and Exchange  
(A Private Research Bureau)

These are the various new plans referred to in the foregoing Summary:

1 - According to the new method of encashing taxpayers cheques as outlined in our Copyrighted Formula, if our governments had enforced their rights to get credit from the taxpayers banks, either direct or indirectly, for the tax payments, in addition to the credits they got from their own banks for the tax deposits, they would by now have gotten more than enough bank funds to wipe out their accumulated cash deficits and shortages, and give them a substantial surplus instead. It's not too late of course, for our governments to adopt this new tax encashing plan now for they would soon accumulate a surplus of bank funds from which they could turn tax credits over to the taxpayers and so reduce their intolerable tax burdens. This plan would cut the levies on the taxpayers in half, up to a point, and cut production and living costs accordingly.

2 - Another alternative tax plan as set out in our Formula, provides for our governments to collect in







1 additional capital up to a certain protion of their  
2 tax requirements, by levying a special tax on the banks,  
3 instead of on the public. This method would also get  
4 back from the banks the tax money needed to adjust the  
5 governments misreported loan and deposit accounts.

6 This proposed tax on the banks would not be  
7 a tax on the bank shareholders or depositors. Rather,  
8 it would be a tax on the banks themselves which would  
9 be payable by way of deposits to be set up by them in  
10 favor of the governments. The deposits would be set up  
11 on both sides of the banking accounts and statements.  
12 They would set up both asset and liability deposits, and  
13 in this way, the payment to the governments would be  
14 a costless procedure. This proposal would permit tax  
15 reductions, and debt reductions too, all without cost  
16 to the banks, the governments or taxpayers.

17 3 - As an alternative to taxation for a portion of its  
18 financial requirements, the Federal Government could  
19 have properly implemented still another of our tax plans  
20 wherein we submit that it could properly issue cheques  
21 drawn upon itself in payment of its obligations, ruling  
22 that all such government cheques would be accepted by  
23 the banks as cash deposits in lieu of the issue of  
24 government cheques could properly be accepted by the banks  
25 as a new form of currency and be held by them as cash  
26 or deposit assets to offset the deposit liabilities  
27 they would set up in favor of the Payees. The govern-  
28 ment cheques wouldn't be returned as vouchers and the  
29 amounts wouldn't be charged against government deposit  
30 balances, in the usual manner.





1 4 - Alternately, our tax burden could be greatly light-  
2 ened if only the government would instruct its bankers to  
3 accept tax cheques up to an agreed upon amount, for  
4 deposit as cash instead of as a charge against the tax-  
5 payers, or to put it another way, to take the tax cheques  
6 in from the government, when properly endorsed, as cash  
7 in exchange for bank currency.

8 5 - According to another of the new tax plans outlined  
9 in our Formula, if the governments had insisted on get-  
10 ting compensation from their bankers for the extra  
11 amounts they cancelled from the government deposit accounts  
12 over and above the amounts they were entitled to  
13 cancel to offset and cancel the government indebted-  
14 ness to them, the governments obviously would by now  
15 have gotten more than enough bank funds to wipe out  
16 their accumulated deficits and shortages, and have given  
17 them substantial surpluses instead.

18 Any of the foregoing tax plans would have  
19 worked out to the benefit of the governments and tax-  
20 payers without any cost to the banks. This latter is  
21 clear because the banks got the extra consideration  
22 needed for them to credit the extra amounts to the  
23 governments without any cost to themselves. We've un-  
24 covered the fact that the banks got full consideration  
25 once by way of the Bank of Canada currency which they  
26 collected in from taxpayers banks, and got an addition-  
27 al consideration by way of reduction in their deposit  
28 liabilities to the taxpayers, which liability deposit  
29 balances they should have transferred to the govern-  
30 ments involved. The banks got both the bank currency,





1 and the asset deposits needed to offset the extra  
2 liabilities our governments were entitled to get from  
3 them in exchange.

4 It should be particularly noted that no taxes  
5 have been levied on either the banks or their customers  
6 on the huge amounts of unreported surplus capital which  
7 became available to them from their overdraft banking trans-  
8 actions. This explains the necessity for the proposals  
9 submitted in our Briefs. Neither are any sizable amounts  
10 of taxation being levied for retirement of the public  
11 debts or deficits. It's time to decide whether to  
12 repudiate the public debt obligations. Delay only  
13 adds to the problem.

14  
15 The following are the facts referred to in the fore-  
16 going Summary which we submit to the Commission in con-  
17 junction with the foregoing plans:

18 6 - That our Federal, Provincial and Municipal govern-  
19 ments grossly over-taxed and over-indebted us to a  
20 total of billions of dollars, and diverted their extra  
21 collections to their bankers, ostensibly to cover over-  
22 drafts and loans. Moreover, they did so without getting  
23 any consideration from their bankers in return for the  
24 mis-appropriated tax money.

25 7 - That our governments, in other words, covered their  
26 bank loan and overdraft debts twice over; once with cur-  
27 rency and once by transfer from their deposit accounts.  
28 That is, our governments permitted their bankers to can-  
29 cel their deposit balances in addition to paying them  
30 cash to cover their loans and overdrafts. This pro-





1 vided the banks with huge amounts of tax money they  
2 were not entitled to, but inasmuch as they failed to  
3 capitalize or report the extra consideration in their  
4 tax reports and banking statements, and failed to pay  
5 any taxes thereon, it's clear that the credit balances  
6 disclosed in their mis-reported loan accounts, are still  
7 owing by them to the governments.

8 8 - That our governments fail to collect for the tax  
9 cheques from the taxpayers banks, in addition to collect-  
10 ing from their own bankers, and consequently get bank  
11 funds for only half the amounts they should get, up to  
12 the limit of the total amounts involved.

13 9 - That had our governments collected from the tax-  
14 payers banks in addition to collecting from their own  
15 bankers too, they could have operated as they did, with  
16 billions of dollars less taxation than they actually  
17 levied and collected.

18 10 - That consequently, our governments are morally  
19 and legally bound to encash the extra amounts owing to  
20 them by their bankers, and refund the money to the  
21 taxpayers or use the extra money for the public benefit.

22 11 - That by turning the extra amounts of tax money over  
23 to their bankers without getting any consideration in  
24 return, and by failing to have the banks report the  
25 extra amounts as taxable surplus capital, the huge  
26 amount of tax money involed was completely wiped out.  
27 The government deposit balances were cancelled and taken  
28 out of the money market to offset the banks own overdrafts.  
29 The tax money was tangible and real enough when it was  
30 paid to our governments and turned over to the banks,







1 but it was mis-used by the banks to cover their own  
2 overdrafts, instead of covering them with bank funds.  
3 12 - That our aim now should be to have the extra loan  
4 account balances due the governments encashed in the  
5 public interest, and release it so as to provide the extra  
6 capital the public and governments are always clamor-  
7 ing for, and which they so badly need for public and  
8 private purposes.

9 13 - That in this respect, it's clear that the banking  
10 and monetary reforms proposed in our Brief to the Royal  
11 Commission on Banking and Finance should be implemented  
12 along with the tax reforms proposed herein, for it's  
13 obvious that if the money the governments and banks are  
14 now holding out on us isn't used to provide the capital  
15 we need, our governments won't be able to get the tax  
16 revenues they must get from us to meet their obligations,  
17 for we couldn't pay it to them.

18 14 - From the foregoing, it's clear that we are being  
19 deprived of billions of dollars of hard-earned tax money  
20 because of the foolish policy of deficitism imposed on  
21 us by the powers that be. We must free ourselves from  
22 their immature theory that they can with impunity  
23 perpetually operate our Economy on a cash deficit or  
24 overdraft basis at the expense of the unsuspecting tax-  
25 payers. For our own security and safety we must insist  
26 that the new capital which accrued to our governments  
27 from their banking transactions and which is presently  
28 standing to their credit in their mis-reported loan  
29 accounts, must be reported and used for public purposes  
30 in lieu of further taxation, until their contra accounts





1 are properly balanced up.

2 With these facts and new plans before this  
3 Commission, I hope the Commissioners will see fit to take  
4 advantage of the new tax plans hereinbefore set out, in  
5 the public interest. By so doing, the huge shortage  
6 in the deposit accounts and pockets of the Canadian  
7 taxpayers and general public may be recovered and made  
8 good.

9 Everybody stands to benefit and nobody could  
10 possibly lose by the adoption of our new tax plans.  
11 It would be folly to further deny ourselves the tax  
12 money we've foolishly done ourselves out of in the  
13 foregoing manner.

14  
15 FRANK O'HEARN

16 Director

17 The Office of Valuation and Exchange  
18 (A Private Research Bureau)

19 59 Bethune Blvd.,

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Scarboro, Ont.



ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

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3 ROYAL COMMISSION ON TAXATION

4 P.C. 1962 - 1334  
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8 BRIEF

9 on behalf of

10 Independent Insurance Agents, Members of  
11 Canadian Federation of Insurance Agents and Brokers  
12 Associations  
13

14 Toronto, March 25, 1963  
15  
16  
17  
18  
19  
20

21 Fred G. Funston, FIIC  
22 Secretary-Manager  
23 Canadian Federation of  
24 Insurance Agents & Brokers  
25 Associations  
26  
27  
28  
29  
30







To the Chairman and Members of the Royal Commission on  
Taxation:

1. This brief is submitted on behalf of the Canadian  
Federation of Insurance Agents and Brokers  
Associations, a corporation under Part II of the  
Companies Act, 1952, by Letters Patent dated  
January 12, 1959, and its Member Associations as  
listed hereunder:

Insurance Agents' Association of Alberta  
Insurance Agents' Association of British Columbia  
Insurance Agents' Association of Manitoba  
Insurance Agents' of New Brunswick  
Newfoundland Insurance Agents' Association  
Insurance Agents' Association of Nova Scotia  
Ontario Insurance Agents' Association  
Insurance Agents' Association of Prince Edward Island  
Insurance Brokers' Association of the Province of  
Quebec  
Insurance Agents' Association of Saskatchewan  
Toronto Insurance Conference

2. Canadian Federation of Insurance Agents and Brokers  
Associations is a Federation of Associations comprising  
a total membership of some 7,500 individual insurance  
agents and brokers, engaged in the "other than life"  
insurance field.

3. These individuals operate or are employed in business  
concerns. In the main, their incomes are derived  
from commission earned on the premiums of insurance  
policies they place as independent contractors on







1       behalf of their customers, with insurers of many  
2       types, i.e., Joint Stock Companies, Mutuals and  
3       Underwriting groups, such as Lloyds. In their  
4       respective capacities they are required to pay all  
5       of the taxes usual to such concerns and as individuals.

6   4. In a brief to the Royal Commission on Taxation on  
7       behalf of Joint Stock Companies, General Members of  
8       the Canadian Underwriters' Association, it is alleged  
9       that Mutuals and cooperatives operate businesses and  
10       that they derive income therefrom, and that by  
11       distributing this income to the extent that it exceeds  
12       the expenses of operating the businesses to the  
13       owners of the businesses as policy dividends or as  
14       patronage dividends, they do not contribute their  
15       fair proportion to the consolidated Revenue of this  
16       country, thus placing an additional burden on others  
17       who must pay taxes, including the individual members  
18       of Member Associations of our Federation.

19 5. The Canadian Federation of Insurance Agents and  
20       Brokers Association is in agreement with the  
21       allegations set out in the brief abovementioned and  
22       the conclusions itemized on page 19 thereof, which  
23       are as follows:

24       "A. There is no evidence that there is a trend to  
25       reduce expenditure by Government with a resulting  
26       drop in the level of taxation but rather the  
27       reverse,

28       "B. and no evidence that Income Tax will not continue  
29       to bear substantial part of the tax burden of  
30       Canada.





- 1 "C. If this is so the effect of this present  
2 discrimination in taxation will tend to be  
3 accentuated,  
4 "D. rendering Joint Stock Companies less able to  
5 compete,  
6 "E. and all taxpayers, Joint Stock Corporations  
7 and individuals subject to a progressive  
8 increase in the burden of taxation."  
9  
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18 Fred G. Funston, FIIC  
19 Secretary-Manager,  
20 Canadian Federation of  
21 Insurance Agents & Brokers  
22 Associations  
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REPRESENTATION SUBMITTED BY:

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The third area concerning which this Commission has been instructed to provide information and make recommendations relates to "provisions in existing laws which may have given rise over the years to anomalies or inequities or which may require action to close loopholes which permit the use of devices to avoid fair taxation". This is an area in which the tax practitioner has a special interest. However, deciding what are anomalies, inequities or loopholes is no easy matter, for good reasons can usually be advanced in support of the principle underlying each provision which is examined. Nevertheless I believe that particularly in the income tax field the failure to resolve some basic problems according to general principle and the attempt to deal with only some of the manifestations of these problems by specific legislation have created situations which warrant the attention of the Commission.

The failure to enact legislation applicable to all taxpayers to permit optional averaging of fluctuating incomes has led to numerous examples of piecemeal relief extended to various classes of taxpayers. Not only does such piecemeal relief discriminate against other taxpayers who are equally deserving, but it also provides benefits unintended by Parliament for those who arrange their affairs so as to take the fullest advantage of the legislation.







1 Similarly, the failure to deal with the problem  
2 of corporate surpluses according to some broad general  
3 principle can be contrasted with the gradual introduction  
4 into the Income Tax Act of a considerable number of  
5 approved statutory methods of withdrawing funds from a  
6 company at various flat rates of tax (Section 105,  
7 Section 105A, Section 105B, Section 105C) in violation  
8 of the principle of progressive taxation. It is not  
9 surprising that some taxpayers and their advisers have  
10 concluded that there is no reason why even these flat  
11 rates of tax need be paid, when the statute spells out  
12 quite plainly for those who can read it that other methods  
13 of withdrawing funds are available which are completely  
14 tax-free. The ineffectiveness of the existing "designated  
15 surplus" legislation is all too apparent.

16 The Income Tax Act

17  
18 A. Mitigation of the tax penalty on fluctuating incomes

19 In one of its first publications "The Mitigation  
20 of the Tax Penalty on Fluctuating or Irregular Incomes",  
21 by Professor John Willis, published in 1951, the Canadian  
22 Tax Foundation sought to explore some of the problems  
23 which arise when a steeply progressive income tax is  
24 imposed on persons with fluctuating or irregular incomes.  
25 The problem is not difficult to state. Why should Jones,  
26 with taxable income of \$3,000 in 1960, \$4,000 in 1961  
27 and \$100,000 in 1962 pay a total income tax of \$52,870  
28 for these three years, while Smith, with a taxable income  
29 of \$35,667 in each of these years, amounting to the  
30 same total income of \$107,000 pays only \$41,979?







The present system operates most unfairly on persons who receive income in a single year which represents the fruits of several years' activity. In many cases such persons could have avoided the worst effects of the progressive income tax by incorporating their business activities, but in other cases the cure would be worse than the disease, by reason of the high rate of tax on corporate earnings in excess of \$35,000 per year. In any event, incorporation would do nothing to alleviate the hardship suffered by two classes of taxpayers:

(1) Those who in good faith (and perhaps on the advice of tax counsel) believe that a gain which they realized on the sale of property was on capital account, but who have subsequently learned, perhaps after costly litigation, that it was ordinary income. In view of the uncertainties inherent in the distinction between capital gains and ordinary income, the tax penalty for such an error in judgment seems altogether disproportionate.

(2) Those who are unable to incorporate, by reason of the rules of the professional bodies to which they belong, such as lawyers, doctors, dentists, architects and accountants.

Parliament has already recognized the unfairness of subjecting certain types of income to the ordinary rates of tax, when such income represents the fruits of several years' work. However, by legislating in a piecemeal fashion, Parliament has left other equally deserving cases unrelieved, while it has opened unintended loopholes for others. Four examples may be given:





(1) Section 43-spreading back of recaptured depreciation

Where a taxpayer sells depreciable property in circumstances which subject him to recapture of capital cost allowances under Section 20(1), he is ordinarily allowed an election under Section 43 to spread the recaptured depreciation back over the preceding five years. The purpose of this provision is, of course, to spread the excess depreciation which the taxpayer has taken back over a number of years roughly approximating that during which the excess depreciation was taken. However, it is obvious that this method cannot do justice to the person who bought depreciable property in 1949 and sold it in 1962, since the excess depreciation which he has taken relates to the whole 13-year period and not to the last five years alone. On the other hand, Section 43 may confer unintended benefits on a person who bought depreciable property in 1961 and sold it in 1962, since he is entitled to spread the excess depreciation back over the years 1957 to 1961, inclusive, as long as he was resident in Canada during those years, even though he did not acquire the property until 1961.

(2) Section 36-lump sum payments

The provisions in Section 36 for taxation of a variety of lump sum payments out of a pension fund, profit sharing plan or deferred profit sharing plan, retirement benefits, payments for loss of office and death benefits quite properly recognize that it is inequitable to subject these sums to progressive rates of tax in a single year. However, the method of relief adopted, to subject them to the average rate of income tax of the three preceding





1 years, encourage tax avoidance by anyone who is in a  
2 position to control the date on which such sums will be  
3 received. If such a person could refrain from having any  
4 taxable income at all for three years, unlimited sums  
5 could be withdrawn, say, as retirement benefits without  
6 payment of personal tax. This does not mean that a person  
7 must starve for three years in order to obtain such a  
8 benefit. Many persons whose cash incomes are large, but  
9 whose taxable incomes may be negligible by reason of  
10 large depreciation allowances, may be the unintended  
11 beneficiaries of Parliament's largess. Other persons may  
12 find it desirable to borrow money on the strength of  
13 the lump sum payment which is coming to them, rather than  
14 receiving taxable income during the three-year waiting  
15 period.

16 (3) Section 37(2) and (3)-election on incorporation of  
17 a business

18 Section 37(2) and (3) allow an individual who  
19 has incorporated his business and who has become an  
20 employee of his own company to avoid having to pay tax  
21 in a single year at regular rates on more than twelve  
22 months' income. If, for example, Jones has carried on  
23 business as a sole proprietor, with a fiscal year ending  
24 on January 31st in each year, and if he incorporates his  
25 company on February 1st, and becomes an employee, these  
26 provisions ensure that he will not pay tax at ordinary  
27 rates both on the twelfth-month's income from his  
28 business (for the year ending January 31st) and on the  
29 eleven-months' income from his employment (for the period  
30 February 1st to December 31st). He is allowed to pay





1 tax at ordinary rates on 12/23rd of his total income and  
2 to pay tax in the same effective rate on the remaining  
3 11/23rds. However, this type of averaging device may  
4 encourage tax avoidance. If Jones chooses to draw no  
5 salary from his company during the first calendar year  
6 and borrows from the company in order to live, he can  
7 reduce his income tax substantially. If, for example,  
8 he earned \$20,000 from his unincorporated business during  
9 the 12-month period ending January 31st, 1962 and if his  
10 personal deductions totalled \$3,000, he would pay tax of  
11 only \$2,814.00 under Section 37(2) and (3) by using this  
12 technique, even though he would have paid \$5,060.00 for  
13 the year 1962, had he not incorporated in that year.

14 (4) Section 85A(2)-employees' stock rights

15 The most extreme example of an averaging device  
16 arises under Section 85A(2), which permits a special  
17 alternative method of paying tax on rights granted to  
18 employees or officers of a company to purchase stock of  
19 the company. The section permits the employee to pay tax  
20 at his average rate of the previous three years, less 20%.  
21 That is, if an executive has drawn a salary of \$20,000  
22 per year for the past three years, 1960, 1961 and 1962,  
23 and if his personal deductions total \$3,000 in each year,  
24 his income tax in those years would have been \$4,970  
25 per year, amounting to 24.85% of his income. Consequently,  
26 if he exercises a stock right in 1963 he will pay tax at  
27 a flat rate of only 4.85% on the value of his right,  
28 whether it is worth \$100,000 or \$1,000,000. If he can  
29 arrange to reduce his average rate of tax below 20% for  
30







1 the preceding three years, he can escape paying taxes  
2 altogether on his stock right.

3 Other examples of unreasonable averaging devices  
4 could be given, some perhaps even more extreme than those  
5 cited. These illustrations are intended to point out the  
6 dangers inherent in piecemeal measures of tax relief for  
7 a problem which is of general significance, such as the  
8 impact of progressive rates of taxation on fluctuating  
9 or irregular incomes. It is submitted that the time has  
10 now come to sweep away these piecemeal measures, which  
11 confer such generous reliefs on a narrow class of  
12 taxpayers, while denying relief to many others whose  
13 cases involve equal hardship. The solution proposed by  
14 Professor Willis in his classic study of this problem  
15 still appears to be the most equitable one. He suggested  
16 that a system of optional block averaging of incomes over  
17 a period of years be instituted for all taxpayers, similar  
18 to that presently permitted farmers and fishermen under  
19 Section 42. For administrative reasons, in order to  
20 avoid an excessive number of small claims, he suggested  
21 that no relief be granted except where the tax payable  
22 on the ordinary basis for the years of averaging exceeded  
23 by at least 10% the tax which would have been payable,  
24 had the total income of the period been earned in equal  
25 amounts each year.

26 B. The Problem of Corporate Surpluses  
27

28 Many attempts have been made to explain and  
29 to suggest remedies for the tax problems arising from the  
30 undistributed surpluses of corporations. The problem is





1 certainly extremely difficult, since it impinges upon  
2 many aspects of tax policy and procedure. Nevertheless,  
3 it is hoped that the following comments may be of some  
4 assistance:

5 1. The problem of corporate surpluses arises  
6 wherever undistributed corporate income is not taxed  
7 immediately in the hands of shareholders or where there  
8 are not substantial tax penalties imposed for the  
9 unnecessary retention of corporate surpluses. Canada  
10 is unusually liberal among English-speaking countries  
11 in not presently having some penalty provisions to force  
12 distribution of unduly large corporate surpluses.  
13 Between 1933 and 1950 we had Section 13 of the Income War  
14 Tax Act and its successor, Section 9(6) of the Income  
15 Tax Act, which entitled the Minister of National Revenue  
16 to treat a portion of a company's surplus as though it  
17 had been distributed to shareholders, where it was being  
18 retained beyond the reasonable requirements of the  
19 company's business, but it is understood that this power  
20 was hardly ever exercised. This legislation was  
21 repealed in 1950 when Section 95A of the 1948 Income Tax  
22 Act (now Section 105 of the Income Tax Act) was enacted.  
23 The present legislation might be described by using a  
24 carrot instead of a stick to encourage corporate distri-  
25 butions. (See J. Harvey Perry - Taxation in Canada -  
26 Second edition, at page 82).

27 In Australia, Division 7 of the Income Tax  
28 and Social Services Contribution Assessment Act provides  
29 for automatic imposition of a penalty tax of  $37\frac{1}{2}\%$  on the  
30 retention by private companies of profits of over £4,000





per year. (See Challoner and Collins-Income Tax Law and Practice (Commonwealth) at page 525 and ff.)

In the United Kingdom, surtax directions may be made under Sections 245 and 264 of the Income Tax Act on companies controlled by five or fewer persons. Such directions have the effect of subjecting the shareholders to immediate taxation on that part of the undistributed income of the company which has been unreasonably accumulated. (See Brudno and Bowen-Taxation in the United Kingdom - page 371 and ff)

In the United States of America, Sections 531 to 537 of the 1954 Internal Revenue Code (the successor to Section 102 of the 1939 Code) permits the Commissioner to assess a penalty tax of  $27\frac{1}{2}\%$  to  $38\frac{1}{2}\%$  on any company which is formed or availed of for the purpose of avoiding income tax on its shareholders by permitting earnings and profits to accumulate beyond the reasonable needs of the business instead of being divided or distributed.

2. As long as both capital gains and intercorporate dividends are exempt from tax, satisfactory solutions of this problem are extremely difficult and tax avoidance devices must be expected. There is little point in detailing in this submission all the various techniques in use for avoiding personal tax upon the distribution of corporate surpluses, since these were dealt with exhaustively in an address given by Mr. H. Heward Stikeman, Q.C. at the 1961 Canadian Tax Conference in Montreal. Suffice to say that almost all of them would become considerably less attractive to taxpayers if intercorporate dividends were subject to some tax, and the





1 higher the rate of tax the less attractive such devices  
2 would become.

3 3. To impose a general tax on intercorporate  
4 dividends would interfere with the fundamental principle  
5 of our Income Tax Act that income from corporations is to  
6 be taxed only once at the corporate level and once at the  
7 individual level (subject to the dividend tax credit  
8 under Section 38). However, this principle would not  
9 be infringed if income tax were imposed only upon the  
10 excess of dividends received by a corporation in any year  
11 over dividends paid by it.

12 For example, a common method of tax and estate  
13 planning involves the formation of a holding company to  
14 purchase the common shares of an operating company from  
15 the principal shareholder. If Jones, who owns all the  
16 shares of Jones Manufacturing Limited, finds that these  
17 shares are increasing substantially in value, he is  
18 frequently encouraged by his tax advisors to sell his  
19 common shares at their appraised value to a new holding  
20 company, which we may call Jones Holdings Limited, in  
21 which the common shares are held by trusts for his  
22 children. Jones may retain control of Jones Manufacturing  
23 Limited by having it issue to him a sufficient number of  
24 non-participating voting preference shares to enable him  
25 to outvote the common shareholders. He has now "frozen"  
26 the value of his estate, since all future increases in  
27 the value of the business of Jones Manufacturing Limited  
28 will accrue to the benefit of his children rather than  
29 to his benefit. His interest in the business now consists  
30 only of his non-participating voting preference shares in







1 Jones Manufacturing Limited and the monies owed him by  
2 Jones Holdings Limited.

3 The estate planning objectives of this arrange-  
4 ment are probably relatively unobjectionable, but the  
5 income tax consequences may raise difficult questions  
6 of tax policy. Jones Holdings Limited is not a personal  
7 corporation as the law now stands. Accordingly, dividends  
8 declared by Jones Manufacturing Limited can be received  
9 by Jones Holdings Limited tax-free under Section 28(1)(a),  
10 as long as they are paid only out of current earnings.  
11 These monies can then be paid to Jones on account of the  
12 purchase price of his shares and they will also escape  
13 taxation in his hands, since they represent capital gains  
14 resulting from the sale of his shares. Since Jones  
15 Holdings Limited will normally be expected to pay Jones  
16 in full before making any distributions by way of dividend  
17 to the trusts for his children, it will be many years  
18 before the Taxation Division will collect any personal  
19 income tax at all from anyone in respect of the dividends  
20 declared by Jones Manufacturing Limited.

21 It should be noted that the example which has  
22 been given is not even one which the ordinary informed  
23 individual would call a "bail-out" or "dividend stripping".  
24 The loss to the Revenue is really of the same nature,  
25 although in a more extreme form, when ways are found to  
26 avoid the "designated surplus" provisions of Section 28(2)  
27 of the Income Tax Act. For example, if Jones Manufacturing  
28 Limited had a large cash surplus which was ready for  
29 distribution, it would be possible even to distribute  
30 this surplus tax-free under present law by making only





1 slight variations in the previous example. Instead of  
2 merely issuing voting preference shares to Jones to  
3 enable him to retain control of Jones Manufacturing  
4 Limited, the company could also convert all the issued  
5 common shares into non-voting common shares, (or,  
6 participating preference shares, as they are called in  
7 Ontario). Then, when Jones Holdings Limited buys these  
8 non-voting shares from Jones, no "designated surplus"  
9 is created. It will therefore be possible for Jones  
10 Manufacturing Limited to declare dividends equal to the  
11 whole of its accumulated surplus (and not merely out of  
12 current earnings), which dividends will be received tax-  
13 free by Jones Holdings Limited and paid to Jones as  
14 capital gains, a classic case of "bail-out" or "dividend  
15 stripping".

16 Unless measures are devised to impose some  
17 income tax upon these intercorporate dividends when they  
18 are received by Jones Holdings Limited, the loss to the  
19 Revenue will be considerable, since there seems little  
20 likelihood that these sums will ever be taxed at personal  
21 rates in the hands of the Jones' children. A tax at a  
22 flat rate of, say, 25% on the excess of dividends received  
23 by Jones Holdings Limited over dividends paid by it  
24 would assist in closing a major loophole in the present  
25 legislation. It would impose no penalty whatever upon  
26 the holding company which declares dividends each year  
27 at least equal to the dividends which it receives. As a  
28 matter of equity, some provisions would be required in  
29 order to allow a company to carry-forward or back any  
30 excess of dividends paid over dividends received; the loss





1 carry-over provisions of Section 27(1)(e) might well  
2 serve as a model for suitable legislation in this area.

3 Adoption of such a tax on intercorporate  
4 dividends would also eliminate most of the need for the  
5 present legislation affecting personal corporations. A  
6 family holding company whose income consisted entirely of  
7 dividends would be subject to this tax to the extent that  
8 it did not declare dividends to its own shareholders at  
9 least equal to those which it received. I believe that  
10 very few family holding companies which are taxed as  
11 personal corporations derive substantial incomes from  
12 rents, since the ownership and management of large amounts  
13 of real estate usually implies an active commercial  
14 business, which eliminates personal corporation status.  
15 This would, for all practical purposes, leave as an  
16 unresolved problem only those family holding companies  
17 whose incomes were derived largely from interest. It is  
18 submitted that the whole of the personal corporation  
19 legislation could safely be repealed if intercorporate  
20 dividends were taxed in this manner. The loss to the  
21 Revenue resulting from permitting companies which derive  
22 the bulk of their incomes from interest to be treated as  
23 ordinary taxable corporations is probably no greater than  
24 that which results from the incorporation of family  
25 businesses and the retention of their corporate earnings  
26 to avoid personal taxation.

27 It must be emphasized that this suggestion  
28 cannot resolve all the difficulties nor close all the  
29 loopholes presently available, since there will always be  
30 taxpayers whose personal rates of tax are such that a 25%





1 tax on intercorporate dividends may be more attractive  
2 than payment of personal income tax on dividends. Never-  
3 theless, the enactment of such tax would make it possible  
4 to repeal Sections 28(2) to (9b), 67 and 68, 105B and 105C  
5 and would permit greater simplicity in the Income Tax Act.

6 C. Capitalization of Undistributed Income  
7

8 Enactment of Section 105(2) of the Income Tax  
9 Act in 1950 marked a major departure from previous  
10 legislative practice in relation to undistributed earnings  
11 of companies. Part XVIII of the Income War Tax Act, which  
12 was enacted following the report of the Ives Commission,  
13 provided relief for taxpayers whose carelessness or  
14 ignorance of tax law had allowed them to accumulate  
15 surpluses in their companies without regard to the  
16 possibility that their deaths would result in large  
17 succession duties which could be paid only out of large  
18 taxable dividends. If at the same time Part XVIII pro-  
19 vided a windfall for other taxpayers who were perhaps  
20 better advised by accountants and lawyers, but who did not  
21 relish paying income tax at personal rates on dividends  
22 which would have to be reinvested in their companies, this  
23 was not too serious, for the legislative relief was of  
24 a "once and for all" nature and served as a warning that  
25 in future taxpayers would have to protect themselves  
26 against the tax consequences of insufficient dividend  
27 distribution.

28 The 1950 legislation went much further. Not  
29 only did it enable surpluses accumulated prior to 1950 to  
30 be withdrawn on payment of the tax at a flat rate of 15%,







1 but it also allowed additional amounts to be distributed  
2 at the same rate, provided an equal amount had been  
3 distributed previously by way of dividend since 1949.  
4 This constitutes serious erosion of the principle of  
5 progressive income taxation for the benefit of a relatively  
6 small class of taxpayers. The advantage to a taxpayer  
7 who is in a high tax bracket of arranging for his company  
8 to make half of its distributions by way of dividend and  
9 half under Section 105(2) is obvious. \$10,000 distributed  
10 to a taxpayer in a 65% tax bracket as an ordinary dividend  
11 bears tax of \$4,500 after deduction of the 20% dividend  
12 tax credit under Section 38. However, if \$5,000 is  
13 distributed by way of dividend and \$5,000 under Section  
14 105(2), the total tax is only \$3,000, a saving of one-  
15 third. Whatever the merits of the principle of the pro-  
16 gressive income tax, it is intolerable that one class of  
17 taxpayers should be entitled to substantial relief from  
18 progressive rates while others with the same amount of  
19 income from other sources pay taxes at steeply progressive  
20 rates.

21 It should also be noted that if measures were  
22 enacted to reduce the tax penalty on fluctuating incomes,  
23 some of the pressures which require the enactment of  
24 Section 105(2) would be alleviated, since a large dividend  
25 declared in a single year for the purpose of paying estate  
26 taxes and succession duties would not be subjected to  
27 virtually confiscatory taxation. Alternatively, if  
28 dividends declared by a private company in favour of the  
29 estate of a deceased shareholder were subject to tax only  
30 at a moderate flat rate, to the extent that they were used





1 to pay estate taxes and succession duties, the relief  
2 could be confined to the class of taxpayers who are most  
3 in need of it. A useful legislative analogy is found in  
4 Section 303 of the United States Internal Revenue Code  
5 which provides that redemption by a company of the shares  
6 of a deceased shareholder will not be regarded as distri-  
7 bution of a taxable dividend, to the extent that the  
8 proceeds of redemption are used to pay the debts of the  
9 estate. In these circumstances the United States Revenue  
10 collects only capital gains tax.

11 D. Associated Corporations

12 Two years of experience with the 1960 amendments  
13 to Section 39 of the Income Tax Act, dealing with associated  
14 corporations, have, I believe, convinced most accountants  
15 and lawyers that the legislation is entirely unworkable  
16 and that it has produced at least as many loopholes as the  
17 legislation which preceded it, as well as adding a measure  
18 of uncertainty which was not previously present. Quite  
19 simply, the legislation is now drawn in such a way that any  
20 business presently operated as a private company can be  
21 reorganized so as to produce a substantial number of  
22 non-associated corporations if one is minded to do so.  
23 The techniques by which this is possible vary considerably,  
24 but in the main they make use of the following devices:

- 25 1. Where a businessman presently holds all the  
26 shares of a company, he may arrange for his wife, his  
27 adult children or trusts for his infant children to  
28 incorporate other companies which will either operate  
29 separate divisions of his business or will carry on in  
30





1 partnership the business presently conducted by the  
2 original company.

3 2. Where the shares of a private company are owned  
4 by several individuals, the operations of the business  
5 may be transferred to a partnership consisting of several  
6 corporations, each wholly owned by one of these  
7 individuals.

8 3. Combination of husbands and wives may be used  
9 for the purpose of producing non-associated corporations.  
10 If, for example, Smith, Jones and Brown each have a one-  
11 third interest in four companies, the shareholdings may  
12 be arranged in the following manner:

|    |               |                                  |
|----|---------------|----------------------------------|
| 13 | Company No. 1 | Smith, Jones, Brown              |
| 14 | Company No. 2 | Smith, Mrs. Jones, Mrs. Brown    |
| 15 | Company No. 3 | Mrs. Smith, Jones, Mrs. Brown    |
| 16 | Company No. 4 | Mrs. Smith, Mrs. Jones and Brown |

17 4. Making use of the decision in the English  
18 case of Hinley Estates Limited v. C.I.R., 17 T.C.367,  
19 arrangements may be made for the issuance of non-  
20 participating voting preference shares to outsiders in  
21 order to divest the principals of the company of formal  
22 legal control. For example:

|    |                |                                                                                                      |
|----|----------------|------------------------------------------------------------------------------------------------------|
| 23 | Company No. 1, | Jones, 100 common shares                                                                             |
| 24 | Company No. 2, | Jones, 100 common shares, Smith 50<br>voting preference shares, Brown 50<br>voting preference shares |
| 25 |                |                                                                                                      |
| 26 | Company No. 3, | Jones, 100 common shares, Green 50<br>voting preference shares, Black 50<br>voting preference shares |
| 27 |                |                                                                                                      |

28 5. In addition, by reason of the peculiarities of  
29 Section 39(4) and particularly clauses (c), (d) and (e)  
30 of the section, it is possible for additional non-associated





1 corporations to be created by having the shares held by  
2 other companies. For example, if Jones holds all the  
3 shares of A Limited and Mrs. Jones holds all the shares of  
4 B Limited, not only are these companies non-associated  
5 but another company, C Limited, whose shares are owned half  
6 by A Limited and half by B Limited, can also be  
7 incorporated which will not be associated with either of  
8 them.

9           It is evident from the extensive use being made  
10 of these devices that the present legislation is not  
11 achieving its purpose. Before further attempts are made  
12 to close its loopholes it might be well to reconsider  
13 whether this type of legislation can ever serve any useful  
14 purpose. The disparity between the rate of taxation on  
15 the first \$35,000 of taxable income of a corporation and  
16 that on the excess of \$35,000 is so great that it is easy  
17 to understand why measures of tax avoidance have become  
18 so common in this area. Perhaps no real progress can be  
19 made in resolving this question until the difference in  
20 rates becomes less marked. In the meantime, however, one  
21 might ask whether the present loss to the Revenue from  
22 use of multiple companies requires legislation of such a  
23 far-reaching nature. There are cases where companies  
24 which have no business at all with one another but which  
25 are controlled by relatives have been treated as  
26 associated corporations merely because a few shares of  
27 stock in one company happened to be held by the persons  
28 who controlled the other company. The present legislation  
29 appears to work primarily as a trap for the unwary. Where  
30 the creation of additional corporations merely involves







1 the legal separation of different branches of a business,  
2 as for example, where separate companies are used to operate  
3 individual stores in a retail chain, the advantages of  
4 non-associated corporation status for each company must  
5 always be compared by the businessman with the dis-  
6 advantages resulting from the fact that our Income Tax  
7 Act contains no provisions for the filing of consolidated  
8 returns. As a result, a retail chain consisting of five  
9 stores, each operated by a separate company, may find that  
10 three of the stores make a taxable profit, while two  
11 produce losses which cannot be offset against the profits  
12 of the other three; this can sometimes be a very serious  
13 disadvantage.

14 It is noteworthy that in the United States  
15 (with one minor exception) no legislation has been con-  
16 sidered necessary to deal with this problem, notwithstanding  
17 a differential of 22% between the rate of tax on the first  
18 \$25,000 of corporate income and the rate on the excess.  
19 The only legislation which restricts in any way the  
20 creation of additional companies for the purpose of  
21 reducing tax is Section 1551, which reads:

22 "If any corporations transfers, on or after  
23 January 1, 1951, all or part of its property  
24 (other than money) to another corporation which  
25 was created for the purpose of acquiring such  
26 property or which was not actively engaged in  
27 business at the time of such acquisition, and if  
28 after such transfer the transferor corporation  
29 or its stockholders, or both, are in control of  
30 such transferee corporation during any part of





1 of the taxable year of such transferee corpora-  
2 tion, then such transferee corporation shall not  
3 for such taxable year (except as may be other-  
4 wise determined under Section 269(b) be allowed  
5 either the \$25,000 exemption for surtax pro-  
6 vided in Section 11(c) or the \$100,000 accumulated  
7 earnings credit provided in paragraph (2) or  
8 (3) of Section 535(c), unless such transferee  
9 corporation shall establish by the clear pre-  
10 ponderance of the evidence that the securing  
11 of such exemption or credit was not a major  
12 purpose of such transfer. For purposes of this  
13 section, control mean the ownership of stock  
14 possessing at least 80 per cent of the total  
15 combined voting power of all classes of stock  
16 entitled to vote or at least 80 per cent of the  
17 total value of shares of all classes of stock  
18 of the corporation. In determining the ownership  
19 of stock for the purpose of this section, the  
20 ownership of stock shall be determined in  
21 accordance with the provisions of Section 544,  
22 except that constructive ownership under Section  
23 544(a)(2) shall be determined only with respect  
24 to the individual's spouse and minor children.  
25 The provisions of section 269(b) and the authority  
26 of the Secretary under such section, shall, to  
27 the extent not inconsistent with the provisions  
28 of this section, be applicable to this section.

29 In Rabkin and Johnson - "Federal Income  
30 Gift and Estate Taxation" at pages 1145a to 1147a it is





1 pointed out that the statute does not treat money as  
2 transferred property. In fact, Regulation 1.1551-1(d)  
3 states, "For example, the transfer of cash for the purpose  
4 of expanding the business of the transferor corporation  
5 through the formation of a new corporation is not a  
6 transfer within the scope" of the section, "irrespective  
7 of whether the new corporation uses the cash to purchase  
8 from the transferor corporation stock-in-trade or  
9 similar property". It is not difficult to see that the  
10 American legislation is of extremely limited scope and  
11 that, generally speaking, no hindrance is placed on  
12 multiple incorporations.

13 In my opinion, the only major loophole which  
14 requires to be dealt with is that relating to partner-  
15 ships of limited companies. In a partnership it would  
16 hardly ever be possible for separate corporations to be  
17 other than a tax advantage. If five companies are  
18 incorporated, each for the purpose of operating one store,  
19 since some of the stores may make a profit and others a  
20 loss the fact that separate companies are used may turn  
21 out to be a disadvantage. However, if a number of  
22 companies operate these five stores in partnership, the  
23 profits and losses from all the stores will be aggregated  
24 in arriving at the partnership income which is to be  
25 allocated among the partners and there can never be any  
26 disadvantage in operating in this manner.

27 E. Court Costs and other Costs of Income Tax Appeals

28  
29 1. A perennial source of complaint about our  
30 present appeal procedures arises from the fact that a





1 decision favourable to the taxpayer is an appeal heard  
2 by the Tax Appeal Board may have broad application to  
3 many taxpayers and may involve large sums for the Revenues,  
4 although only a small sum is involved for the individual  
5 taxpayer concerned. The Taxation Division is clearly  
6 entitled to appeal to the Exchequer Court any decision  
7 of the Tax Appeal Board with which it disagrees. However,  
8 this can work unfairly on the small taxpayer who has  
9 appealed through the relatively inexpensive procedures  
10 of the Tax Appeal Board. In the United Kingdom, appeals  
11 in income tax matters to the House of Lords are quite  
12 frequently taken by the Revenue in cases which involve  
13 only small sums for the taxpayer concerned. In such  
14 cases leave to appeal is sometimes given only after the  
15 Revenue has undertaken to pay the taxpayer's legal costs,  
16 no matter which way the decision goes. It is suggested  
17 that quite similar arrangements might be instituted in  
18 the Exchequer Court of Canada, which might be permitted  
19 to hear appeals by the Taxation Division from decisions  
20 of the Tax Appeal Board involving less than, say, \$5,000,  
21 only upon their undertaking to pay the taxpayer's cost  
22 in any event of the cause.

23 2. Another irritant arises from application of the  
24 legal principle that expenses of income tax litigation  
25 and even of advice in income tax matters are not expenses  
26 incurred for the purpose of gaining or producing income  
27 and are therefore not deductible for income tax purposes.  
28 The basis of this principle is that such expenses are not  
29 incurred to earn income, but rather to determine the  
30 allocation of the income as between the Crown and the







1 taxpayer after it has been earned. Such a principle is,  
2 no doubt, properly applicable when partners dispute  
3 about the distribution of partnership profits, since the  
4 expenses of litigating their dispute having nothing to  
5 do with the earning of the partnership income. However,  
6 litigation between partners is quite exceptional and  
7 legal rules developed to deal with such cases have, in  
8 my submission, no proper application to income tax cases.  
9 Income tax laws are today of such complexity and ambiguity  
10 that business people must frequently consult tax advisers  
11 and may occasionally become involved in proceedings before  
12 the Appeal Section or even in appeals to the Tax Appeal  
13 Board or to the Exchequer Court. Business men properly  
14 regard income tax as a cost of doing business, not  
15 essentially different from the ordinary expenses of their  
16 business. In my experience, businessmen find it almost  
17 inconceivable that the sums which they pay to accountants  
18 and lawyers in connection with contested income tax matters  
19 are not permitted as deductions under the Income Tax Act.

20 3. A further source of unnecessary hardship arises  
21 from the fact that under Section 51(1) of the Income Tax  
22 Act the tax imposed by an assessment must be paid within  
23 thirty days, whether or not an objection to or an appeal  
24 from the assessment is outstanding. It is true, of course,  
25 that if the taxpayer is successful in his objection or in  
26 his appeal the tax which he has overpaid will be refunded  
27 with 6% interest but this is far from satisfactory. At  
28 the present time, some District Taxation Offices appear  
29 to ignore the provisions of Section 51(1) and to allow  
30 taxpayers who file notices of objection merely to give





1 security for payment of the taxes in dispute, while the  
2 matter is litigated. This arrangement should be put on  
3 a statutory basis, by giving every taxpayer the same right,  
4 perhaps subject to his obtaining approval of the security  
5 from a judge of a county or district court.

6  
7 The Excise Tax Act

8 Notwithstanding years of agitation for reform  
9 of the Excise Tax Act the main problems remain completely  
10 unresolved. These problems are still the following:

11 (1) The lack of any clear statutory basis  
12 for the "wholesale discount" procedure,

13 (2) The arbitrary powers conferred on the  
14 Minister under Section 37 (and to some extent also under  
15 Section 31) to determine value for tax purposes,

16 (3) The lack of an adequate appeal procedure,  
17 and

18 (4) The harsh criminal penalties for non-  
19 payment of sales and excise taxes.

20 (1) The "wholesale discount" procedure

21 Although Section 30 of the Excise Tax Act  
22 imposes a consumption or sales tax on the sale price of  
23 all goods and although Section 29(1)(f) makes it clear  
24 that this tax is to be levied on the actual price charged  
25 by a manufacturer, whether the sale be made to a whole-  
26 saler, a retailer or a consumer, the practice of the  
27 Department of National Revenue for many years has been  
28 to allow a "wholesale discount" on all sales made by  
29 manufacturers directly to retailers or consumers whenever  
30 this is necessary in order to ensure relative equality of





1 tax treatment. If, for example, a manufacturer sells a  
2 particular item to retailers at \$1.00 and to wholesalers  
3 at 80¢, notwithstanding Section 29(1)(f) he usually  
4 accounts for tax on sales to retailers, not on his actual  
5 selling price of \$1.00, but on his established wholesale  
6 price of 80¢. (See Regulation 21(2)(g) of Circular  
7 ET-1). If such an allowance were not made, the manu-  
8 facturer would be at a disadvantage in making sales  
9 directly to retailers, compared to the wholesaler who  
10 also sells to retailers. In the case of certain specific  
11 classes of goods, a somewhat different procedure is  
12 followed, whereby manufacturers selling directly to  
13 retailers or consumers are permitted a wholesale discount  
14 of a specified percentage from their selling prices,  
15 irrespective of the price charged by them to wholesalers.

16           The legal validity of the Circulars issued  
17 by the Minister of National Revenue dealing with whole-  
18 sale discounts must, of course be based upon the provision  
19 of the Excise Tax Act. However, Section 38(1) merely  
20 provides, "The Minister of Finance or the Minister of  
21 National Revenue, as the case may be, make such regulation  
22 as he deems necessary or advisable for carrying out the  
23 provisions of this Act." As a result, the courts have  
24 not been clear as to the legal validity of the whole  
25 discount procedure. In Attorney General of Canada v.  
26 Coleman Products Limited, (1929) 1 D.L.R.658, it was held  
27 that the wholesale discount procedure was ultra vires  
28 the Minister and that the statute required him to collect  
29 tax upon the actual selling price. However, in  
30 Laboratoires Marois Limitee v. The Queen (1955) 55





1 D.T.C.1115, the contrary conclusion was reached by the  
2 Exchequer Court of Canada. On appeal by the Minister  
3 to the Supreme Court of Canada in 1958 (58 D.T.C.1116)  
4 two judges upheld the validity of the wholesale discount  
5 procedure, two declared it ultra vires and the fifth  
6 judge decided the case on other grounds.

7 Quite simply, this situation is intolerable.  
8 If the Coleman case was correctly decided, the Minister  
9 is acting illegally. On the other hand, if the Exchequer  
10 Court decision in the Marois case is correct, we have a  
11 situation in which, entirely contrary to our parliamentary  
12 traditions, the rate of sales tax to be imposed on a  
13 particular transaction is in effect established by  
14 ministerial fiat rather than by Parliament. If the  
15 wholesale discount procedure is necessary for the proper  
16 administration of the Excise Tax Act, provisions similar  
17 to those contained in Regulation 21 should be enacted  
18 as a part of the Excise Tax Act, modifying the definition  
19 of "sale price" in Section 29(1)(f).

20 The absence of a clear statutory basis for the  
21 wholesale discount procedure at the present time could  
22 place the manufacturer in an unenviable position where,  
23 in the event of a serious dispute with the Excise Branch  
24 over wholesale discounts, such as that which arose in  
25 the Marois case, if he does not accept the Departmental  
26 ruling in his case, he could be deprived of an effective  
27 right of appeal to the courts; a court which followed  
28 the Coleman decision could only determine that tax must  
29 be accounted for on the basis of the actual selling price  
30 without deduction of any wholesale discount whatever.







1                   On the other hand, the time is now ripe to  
2 consider whether the imposition of sales tax at some  
3 other level might be more appropriate than the present  
4 system. Ideally, a neutral tax structure which imposes  
5 consumption or sales taxes should impose them as close as  
6 possible to the consumer level, in order that each dollar  
7 spent by the consumer should bear the same proportion of  
8 taxes. In view of the fact that the most of the provinces  
9 now impose retail sales taxes, perhaps it would now be  
10 in order to consider the suggestion made by the Director of the  
11 Canadian Tax Foundation in a recent issue of the Canadian Tax  
12 Journal that the federal government and the provinces  
13 co-operate in the imposition of a retail sales tax, to be  
14 collected by the provinces on behalf of themselves and  
15 the federal government. Such a tax could replace the  
16 present federal sales tax by transferring the tax (at a  
17 lower rate) to the consumer level. This would eliminate  
18 many of the very serious problems of tax equity and  
19 administration which presently results from the imposition  
20 of tax at the manufacturers' level. For example, it  
21 would no longer be of any fiscal importance whether a  
22 person was classed as a manufacturer and many of the  
23 artificial arrangements presently existing in various  
24 industries for avoiding the status of manufacturer for  
25 sales tax purposes, as well as the equally artificial  
26 statutory rules deeming certain persons to be manufacturers,  
27 would be eliminated. By abolishing the arbitrary adjust-  
28 ments of tax bases which are presently required by the  
29 wholesale discount procedure, greater certainty and  
30 fairness could be achieved.





1                   Alternatively, the proposal made by the majority  
2 of the Carter Committee in 1956, to convert the present  
3 tax into one based on the price paid by the retailer to his  
4 supplier (whether that supplier be the manufacturer or  
5 the wholesaler) has greater merit. Most of the artifi-  
6 ciality of the present method of fixing the tax base  
7 through the wholesale discount procedure would be  
8 eliminated if sales tax were levied in every case on the  
9 price actually charged to the retailer. The fact that  
10 this would involve licensing all wholesalers does not  
11 appear to present an insurmountable obstacle. A national  
12 price would still have to be established for tax purposes  
13 in all cases where sales are made directly by manufacturers  
14 or wholesalers to consumers, but such sales represent  
15 a much smaller percentage of all transactions in Canada  
16 than do sales to retailers.

17  
18 2. Arbitrary powers conferred on the Minister

19                   Section 37 of the Excise Tax Act provides:

20                   "Where goods subject to tax under this Part or  
21                   under Part IV are sold at a price that in the  
22                   judgment of the Minister is less than the fair  
23                   price on which the tax should be imposed, the  
24                   Minister has the power to determine the fair  
25                   price and the taxpayer shall pay the tax on the  
26                   price so determined".

27                   Presumably this section was enacted for the purpose of  
28                   protecting the Revenue in cases where the manufacturer  
29                   and his customer are inter-related, associated or  
30                   affiliated concerns or where one is subsidiary to the





1 other and, as a result, the price charged is less than  
2 that which might be charged in an arm's length transaction.  
3 However, in The King v. Noxzema Chemical Company, the  
4 Supreme Court of Canada held that the power conferred  
5 upon the Minister under this section is administrative,  
6 rather than judicial, and that no appeal lies from the  
7 Minister's determination of the "fair price" for sales  
8 tax purposes. Similarly, Section 31(1) provides:

9 "Whenever goods are manufactured or produced in  
10 Canada under such circumstances or conditions  
11 as render it difficult to determine the value  
12 thereof for the consumption or sales tax  
13 because

14 (a) a lease of such goods or the right of  
15 using the same but not the right of property  
16 therein is sold or given;

17 (b) such goods having a royalty imposed thereon  
18 the royalty is uncertain, or is not from other  
19 causes a reliable means of estimating the value  
20 of the goods.

21 (c) such goods are manufactured by contract  
22 for labour only and not including the value of  
23 the goods that enter into the same, or under  
24 any other unusual or peculiar manner of  
25 condition, or

26 (d) such goods are for use by the manufacturer  
27 or producer and not for sale;

28 the Minister may determine the value for the  
29 tax under this Act and all such transactions<sup>s</sup>  
30 shall for the purposes of this Act be regarded





as sales."

It appears to be quite unreasonable to permit tax to be imposed in this manner. Section 17(2) of the Income Tax Act, which deals with the same problem, simply states:

"Where a taxpayer carrying on business in Canada has sold anything to a person with whom he was not dealing at arm's length at a price less than the fair market value, the fair market value thereof shall, for the purposes of computing the taxpayer's income from the business be deemed to have been received or to be receivable therefor."

Section 17(2) therefore leaves the determination of fair market value to the courts, in the event of a difference of opinion between the Minister and the taxpayer. Enactment of a similar provision in the Excise Tax Act, in place of the present sections 31 and 37, would remove an unnecessary and arbitrary power presently conferred upon the Minister.

### 3. Appeal procedure

It is an astonishing thing that a statute under which hundreds of millions of dollars are collected each year in taxes should be so lacking in normal appeal procedures. The only provisions dealing with appeals are those contained in Sections 57 and 58, dealing with the jurisdiction of the Tariff Board, which is empowered to declare what amount of tax is payable on any article or that the article is exempt from tax, subject to an







1 appeal to the Exchequer Court on the questions of law.  
2 The extraordinary limited nature of this appeal procedure  
3 was the subject of comment by the Supreme Court of Canada  
4 in Goodyear Tire & Rubber Company v. T. Eaton Company,  
5 (1956), 56 D.T.C. 1060. In that case the court held that  
6 the Tariff Board was entirely without jurisdiction to  
7 decide whether a person was a manufacturer for sales tax  
8 purposes. The Tariff Board is also without jurisdiction  
9 to hear a suit by the Crown for the recovery of taxes  
10 sought to be evaded where the defence is that all taxable  
11 sales have been fully reported. Even its ability to  
12 decide "what rate of tax is payable on any article"  
13 probably does not extend to the determination of questions  
14 involving wholesale discounts. It is suggested that the  
15 limited jurisdiction conferred on the Tariff Board is of  
16 little practical value, except for the relatively  
17 unimportant class of matters requiring a determination  
18 whether a particular class of articles falls under one  
19 of the items in Schedule I of the Act (which lists  
20 articles subject to excise tax) or Schedule III (which  
21 lists items exempt from sales tax). The need still exists  
22 for a simple procedure for appealing assessments to the  
23 courts, similar to that provided in Section 58 to 60 of  
24 the Income Tax Act.

25 A further discussion of this matter is con-  
26 tained in an article in Volume XXXII of the Canadian  
27 Bar Review at pages 79 and following.

28 4. Criminal penalties for non-payment of sales and  
29 excise taxes

30 Although sales taxes are, by Section 30(1) of





1 the Excise Tax Act, treated merely as civil debts imposed  
2 upon the manufacturer, and although payment of this debt  
3 is demanded from the manufacturer whether or not he is  
4 able to collect the purchase price or even the amount  
5 of the tax from his customer, the penalties imposed under  
6 Section 53 upon a manufacturer who fails to pay his sales  
7 or excise tax appeal to be based upon the entirely  
8 contrary view, that sales and excise taxes are trust  
9 funds collected from customers, which must be remitted  
10 to the Crown on pain of criminal sanctions. It is not  
11 unreasonable to take the position that any monies  
12 actually collected by a manufacturer from his customers  
13 on account of sales or excise taxes should be treated  
14 as trust funds and that failure to remit these monies  
15 should subject a manufacturer to criminal penalties.  
16 Similar provisions are contained in Section 131(2) of  
17 the Income Tax Act, relating to nonpayment of employees'  
18 withholding taxes. However, it is quite unfair to impose  
19 such penalties except where monies have actually been  
20 received by the manufacturer from his customer. Never-  
21 theless, Section 53 of the Excise Tax Act imposes a  
22 severe criminal penalty for nonpayment of sales tax,  
23 whether or not the manufacturer has collected the tax from  
24 his customers. The section actually imposes a criminal  
25 penalty for nonpayment of a civil debt.

26           Moreover, although the penalty imposed by  
27 Section 53 is calculated in part by reference to the amount  
28 of tax that should have been paid and although Section  
29 51(2) permits the Minister to apply this portion of the  
30 penalty on account of the tax that should have been paid,





1 no obligation is imposed upon the Minister actually to  
2 apply the penalty in this manner. There is nothing in the  
3 Excise Tax Act, as it now stands, to prevent the Minister  
4 from prosecuting and collecting from each partner of  
5 a firm which carries on a manufacturing business an  
6 amount equal to the sales tax that the firm should have  
7 been paid and then suing the firm under Section 50 for  
8 the same amount as an ordinary civil debt. In the case  
9 of an incorporated company, the statute actually permits  
10 the Minister to prosecute and collect the amount of the  
11 tax from every officer, director or agent of the company  
12 who has directed, authorized and condoned or participated  
13 in the commission of the offence of nonpayment of tax  
14 and, in addition, to sue the company for the amount of  
15 the tax. It is submitted that such provisions are wholly  
16 unnecessary. It is no answer to this criticism to say  
17 that in practice the Excise Branch does not exercise these  
18 powers; their presence in the statute is undesirable and  
19 their elimination is required.

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